Revenue Canada Taxation | Revenu Canada Impôt

TAXOPEDIA

INCOME TAX REFERENCES

TEACHING
TAXES

TAXOPEDIA

INCOME TAX REFERENCES

Revenue Canada Taxation
Revenu Canada Impôt

Ce manuel est aussi disponible en français. Il est intitulé Enseignons l'impôt, "Impôlogie."

TIS4-E Rev. 85

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Taxation Districts

Districts

a St. John's	k Rouyn	u Sudbury
b Sydney	l Ottawa	v Thunder Bay
c Halifax	m Kingston	w Winnipeg
d Charlottetown	n Belleville	x Regina
e Saint John	o Toronto	y Saskatoon
f Québec	p St. Catharines	z Calgary
g Sherbrooke	q Hamilton	aa Edmonton
h St-Hubert	r Kitchener	bb Penticton
i Montréal	s London	cc Vancouver
j Laval	t Windsor	dd Victoria

*Taxation Centre

Revenue Canada

District Offices
Bureaux de district

Revenu Canada

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Northwest Territories
Territoires du Nord-Ouest

call Edmonton/
appeler Edmonton

Yukon Territory
Territoire du Yukon

call Vancouver/
appeler Vancouver

INTRODUCTION

The *Taxopedia* has been prepared as part of the Teaching Taxes programme. It provides reference materials for students and teachers studying the Canadian tax system plus illustrations, charts, tables and graphs.

The first part outlines the history of taxation from ancient times through its development in Canada.

The second describes the Canadian tax system including the tax department, how returns are processed and the philosophy behind all this.

A glossary of tax terms makes up the third part.

The fourth section contains general information about the Income Tax Act, taxpayers' responsibilities and filing a return.

Using this manual

A class set of these reference manuals is being provided for each teacher in the Teaching Taxes programme. Since most of the information in this book does not change from year to year, it will not be reprinted every year. Students using the manual should be careful to keep it in good condition and intact. After all, it is their tax dollars that pay for it.

These manuals may be placed in three-ring binders or rebound in whatever way is most suitable. They may also be separated into parts which can be used like pamphlets at the appropriate place in the course. Extra copies of any part may be reproduced for students' use. Other useful materials may also be inserted.

The *Teacher's Update* now contains all the information a teacher needs and it will continue to be updated every year. The exercises have been put in the *Student's Workbook* so that they can be updated every year too.

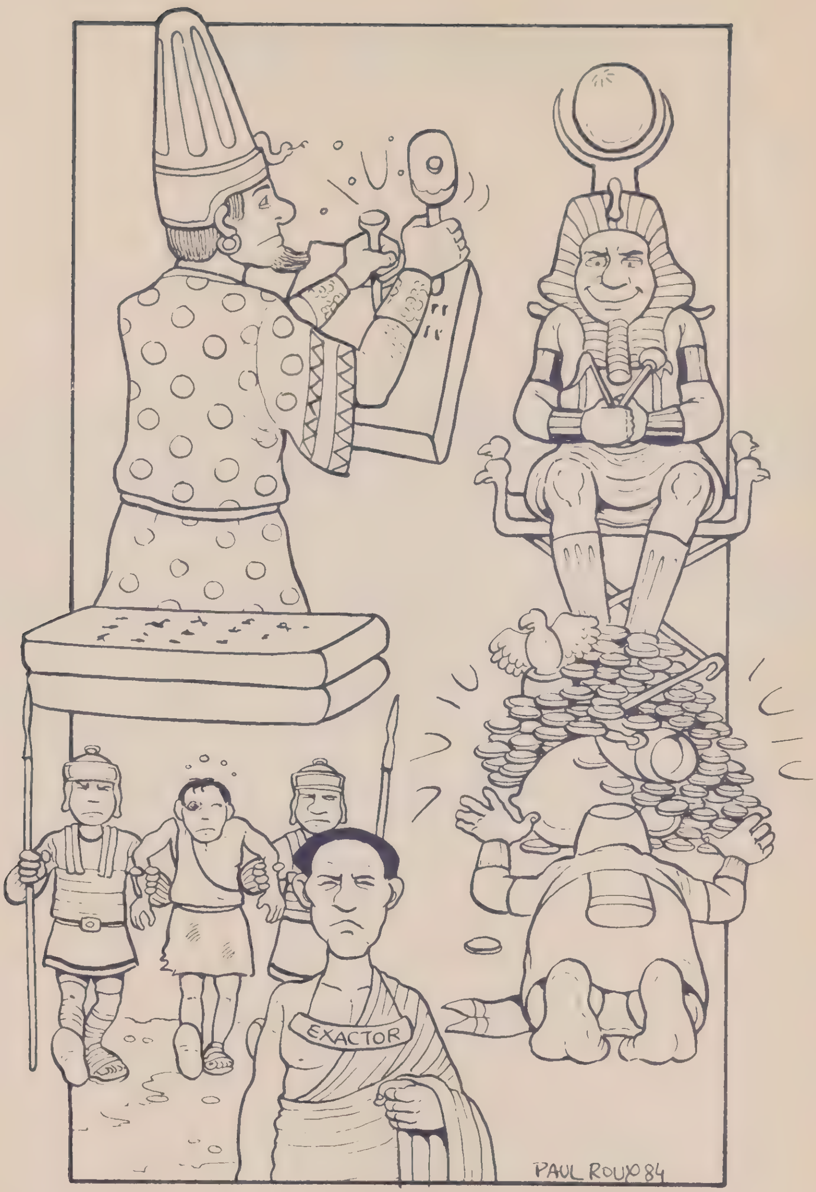
Because the *Taxopedia* is in a looseleaf format, it can be updated also. New pages will be sent to do that. Teachers will find their class can very quickly take the books apart, remove old pages, put in the new ones and reassemble them.

Part 1

THE WAY IT WAS

"I have placed no time limit upon this measure . . . a year or two after the war is over, the measure should be definitely reviewed."

Sir Thomas White, Minister of Finance,
re the Income War Tax Act, 1917


EXACTOR
PAUL ROUX 84

In the Beginning

Thirty-five centuries ago, a writer of Sumer (now Iraq) engraved in cuneiforms on a tablet: You can have a lord, you can have a king, but the man to fear is the tax collector. A thousand years before that, citizens of the Sumerian state of Lagash had overthrown the ruling monarch and replaced him with a king who cut taxes and fired tax collectors.

Egyptian bas-reliefs show the pharaohs amassing great riches from taxes. The Romans too had taxes on everything – land, buildings, religion and luxuries.

When the Egyptians and Romans collected taxes, they weren't gentle. They beat tax evaders crippling some of them for life. In the Middle Ages in Europe, people who didn't or couldn't pay their taxes went to jail – permanently.

In Canada

Before Confederation, taxes were collected by the colonial governments and sent to the two parent countries. Revenue was usually collected by levying customs duties. In 1650, Louis XIV of France imposed the first tax in Canadian history – an export tax of 50 percent on beaver pelts and 10 percent on moose hides leaving his colonies.

In 1751, Nova Scotia, by then an English colony, began levying its own customs duties on sugar, bricks, lumber and billiard tables. The following year, the Nova Scotian government imposed excise taxes on tea, coffee and playing cards.

Confederation

With the passage of the British North America Act in 1867, the newly formed Canadian government was empowered to raise money "by any mode or system of taxation", but in the ensuing 50 years the federal government obtained its modest revenue requirements from indirect taxes such as sales taxes, customs duties and excise taxes.

In 1867, the dominion increased excise duties on liquor and levied a tax on beer, malt, cigarettes, cigars and snuff. Three years later, the federal government raised existing taxes and imposed new import duties on vinegar, wheat and grain.

The Fathers of Confederation left direct taxation to the four provinces, Ontario, Québec, Nova Scotia and New Brunswick.

The provinces

The provinces relied mainly on federal subsidies, fees, licences and the rents from public lands to raise money. As they expanded and developed their resources, they increased their taxes.

From 1867 to 1917, they taxed horses, dogs, cars, gasoline, salmon, canaries, race-tracks, foxes, circuses, travelling shows, restaurants, bowling alleys and poolrooms.

British Columbia joined Confederation in 1871 and by 1876 had levied both an income tax and a land tax.


TAXES
PAUL ROUX 84

Québec, which had had to play a large role in the financing of railways in the province, demanded in the 1880's that its agreements with the dominion be revised. Québec set the pace in becoming the first province to grapple with corporation taxes. It organized an assessment system imposing a tax, which is still in effect, on places of business, paid-up capital, etc.

One by one, the other provinces followed suit. In 1892, Ontario set a precedent by imposing succession duties with a constitutionally valid piece of legislation that was quickly adopted by all the provinces. Prince Edward Island, a member of Confederation since 1873, levied a property tax in 1894 and collected taxes on personal incomes. In the half century following Confederation, Prince Edward Island and British Columbia were the only provinces to levy an income tax.

The main source of revenue for Manitoba, which entered Confederation in 1870, and Saskatchewan and Alberta, which joined the Dominion in 1905, was federal grants.

In 1896, direct taxes collected by the provinces accounted for only 10 percent of their revenues. These taxes increased gradually until World War 1. By then, the provincial governments had come to think that direct taxation was their exclusive right.

The federal government

The Fathers of Confederation had reserved the most expensive areas of responsibility for the federal government – the construction of railways, roads, bridges and harbors – and had entrusted to the provincial governments the fields of education and welfare.

Why then did the federal government wait 50 years before levying direct taxes on Canadians?

Before the construction of the railway linking East and West, Atlantic and Pacific, the only means of transportation were horse and boat. It would have difficult indeed to collect annual taxes on a Canada-wide basis.

In addition, before the beginning of the industrial age in Canada, most people were farmers who were regarded as small taxpayers. This did nothing to encourage the federal government to establish a comprehensive system of taxation.

There were also political reasons for delaying the imposition of direct taxes. Confederation had united the colonies but their union remained precarious. The levying of direct taxes at such a time could have compromised Canadian unity.

On the other hand, revenue raised through customs duties and excise taxes was growing steadily, from $14 million in 1868 to $40 million in 1898 and $160 million in 1916. The excise tax on one gallon of spirits, for example, which was 60 cents in 1868, increased to $1.90 in 1914 (and a whopping $13 in 1960).


VERDUN
PAUL ROUX 84

World War 1

The demands of war

On August 4, 1914, Canada declared war against Germany.

The pressures of financing World War I brought significant changes in the tax system. In 1916, the federal government entered the direct tax field with the levying of a corporation tax, the Business Profits War Tax. The tax affected corporations only if their profits exceeded a stated percentage of their invested capital. While this was not an income tax as we know it today, it was, nevertheless, a milestone in the history of the Canadian tax system as it paved the way for changes in the government's attitude towards new sources of funds.

In 1917 the government led by Sir Robert Borden introduced the Income War Tax Act. The Minister of Finance, the Honourable Sir Thomas White, described it as a temporary measure. This direct taxation on income was passed by the twelfth parliament.

Revenues from this tax were recorded in the fiscal year 1916-1917 and collected by the Commissioner of Taxation attached to the Department of Finance.

When the Income War Tax Act received royal assent in 1917, reaction from the provinces was strong. They refused to acknowledge the federal government's right to collect direct taxes, wanting this authority for themselves alone. Some provincial premiers spoke of "invasion" of provincial rights.

With the return of the survivors of the war, it was necessary to open hospitals, care for the wounded, provide shelter for the permanently disabled and pay war pensions, in short, to shoulder the responsibilities resulting from the Great War.

The government had also acquired a railway during the conflict and now, for the national economy, had to operate it on a grand scale.

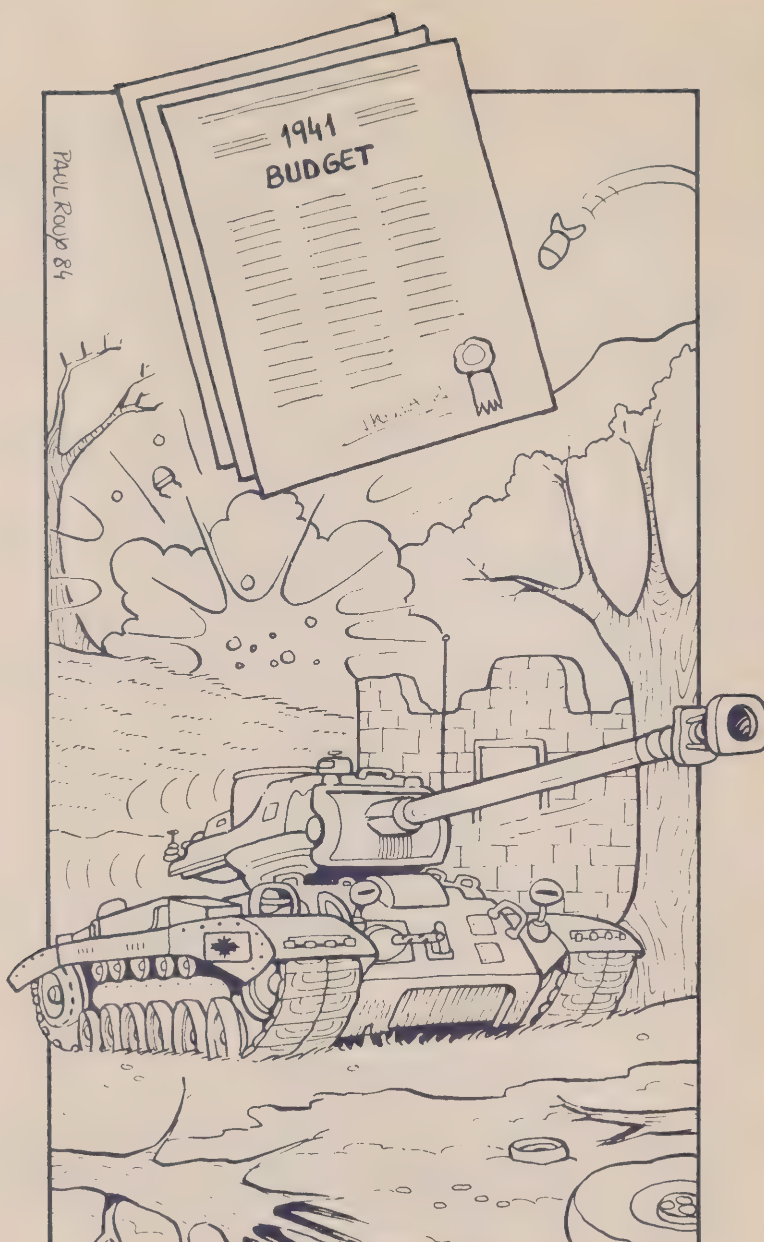
Further tax measures were imposed as a result. A general tax on corporate and personal income was levied in July 1917.

Administration

1927 saw the establishment of the Department of National Revenue. Then as now, the new department had two separate components, Taxation, and Customs and Excise. Each of these components, under the same minister, operated in separate quarters with its own Deputy Minister and departmental organization.

The Depression

Between 1930 and 1939 federal taxes paid by most taxpayers doubled. The federal government added a nonresident withholding tax in 1933 and a gift tax in 1935. In 1930, only three provinces – Prince Edward Island, Manitoba and British Columbia – taxed personal incomes whereas nine years later, in 1939, seven levied such a tax. In some cases, provincial taxes were as high as federal taxes.


1941
BUDGET
PAUL ROUP 84

Rowell-Sirois Commission

In 1937, the Rowell-Sirois Commission was set up to define the responsibilities of the provinces and of the federal government. In the three volumes of its report, submitted in 1940, this commission recommended first that the federal government assume responsibility for aid to the unemployed; second, that the precise yet shifting responsibilities of the provinces be sorted out; and third, that there be a redistribution of revenue between the provinces and the dominion, and among the provinces.

War . . . Again!

In the late summer of 1939 World War II broke out. It was a war that was to last for six long years. Once again war was to affect the Canadian tax structure.

In his April 1941 budget, the Minister of Finance, the Honourable J.L. Ilsley, proposed that the provinces be paid compensation if they refrained from taxing individual and corporate incomes. This would allow the federal government to raise taxes on individual and corporate incomes. With expenditures increasing, it was practically impossible for the provinces to refuse. At the same time as they agreed, the federal government introduced a new tax with the Succession Duty Act.

Although the three-billion-dollar cost of World War I had seemed enormous at the time, it was minuscule when compared with the cost of World War II – some $23 and a half billion. Nor was federal government revenue comparable. Whereas during the first war, revenue offset only 46 percent of expenditures, during the second, 57 percent of expenditures was covered by revenue.

The revenue of the federal government increased rapidly in a short space of time, rising from a pre-war figure of $500 million to $2.92 billion, despite $200 million in repayments of personal taxes and surplus tax benefits. After the war, revenue fell to $2.6 billion.

Pay-as-you-earn deductions

As tax collections rose, the tax department's workload increased. The result was the introduction of the pay-as-you-earn plan of tax deductions in 1942. Employers were required to deduct income tax from their employees' wages throughout the year and send it to the department. Self-employed individuals were required to pay income tax by instalments.

The income tax act

In August 1945, five days after the end of the war, the provinces again sat down with the federal government to discuss fiscal policies. In principle, this was to be a continuation of the 1941 conference directed towards reaching a decision on the Rowell-Sirois Report. In fact, the participants went beyond the changes considered in the earlier report.

The 1945 conference marked a decided change in the course of the taxation story. The federal government reserved for itself three areas of taxation – personal income tax, corporation income tax and estate tax. In return, it paid out sums based on the population of each province. The federal government signed its first tax rental agreement with the provinces. Within a decade, tax rental and tax-sharing agreements were in effect with most of the provinces.

On January 1, 1949, the Income War Tax Act was repealed and the Income Tax Act came into effect.


PAUL ROUX 84

Conferences

The 1950's were marked by an increasing concern with attempts to establish a modern system of taxation. It was not an easy task. Revenues were rising; in 1953 they were $4.4 billion.

During these years, federal-provincial conferences were held almost every year to discuss tax changes and distribution.

In 1950, the Rt. Hon. Louis St. Laurent, then Prime Minister of Canada, invited the provincial governments to another discussion of tax-sharing arrangements. The conference resolved three main issues, the renewal of the 1947 tax agreements, old age pensions and a constitutional amendment allowing provincial legislatures to impose an indirect sales tax at the retail level.

Other changes occurred both in the structure of the law and in its administration. These included the removal of many of the discretionary powers of the tax department, the replacement of the straight-line method of depreciation by capital cost allowances, and the simplification of rate structures and tax return forms. The Tax Appeal Board was established to settle differences of opinion between the taxpayer and the department. The Special Investigations Branch of the tax department was also created during this period to investigate tax evasion. New District Taxation Offices were opened to serve the taxpayer locally.

The philosophy behind tax collection also changed. It was integrated with the collection and distribution of social benefits. In 1952, for the first time, the department became involved in an area other than income tax when collections under the Old Age Security Act became a departmental responsibility. In 1966 the department was given the added responsibility of collecting Canada Pension Plan contributions from employers and the self-employed.

Computers

At this time, all income tax returns were mailed directly to District Taxation Offices where they were processed and assessed by hand. As more and more returns flooded in, this procedure became unmanageable. The need for a more efficient system turned the department towards electronic processing of data – computerization. In 1962, it acquired its first computers for the original Data Centre in Tunney's Pasture in Ottawa.

Tax Reform

In an age when science and technology were continually advancing, when standards of living and the economy were constantly changing, tax laws, too, had to change. The Income Tax Act of 1949 was frequently amended, and many of the changes were important, but its basic structure remained unchanged.

Revenues

Fiscal year ended	Individual income tax	CPP contributions	UI premiums	Non-resident tax	Succession duties or estate tax	Corporate income tax	Excess profits and other special taxes (refunds)	Petroleum & gas royalty and miscellaneous taxes	Total collected
	$ millions			$ millions		$ millions		$ millions	$ millions
1917	–	–	–	–	–	–	12.5	–	12.5
1920	13.2	–	–	–	–	7.1	44.1	–	64.4
1925	25.2	–	–	–	–	31.1	2.7	–	59.0
1930	27.2	–	–	–	–	41.8	.2	–	69.2
1935	25.2	–	–	5.8	–	35.8	–	–	66.8
1940	45.4	–	–	11.1	–	77.9	–	–	134.4
1945	767.8	–	–	28.6	17.2	276.4	465.8	–	1,555.8
1950	622.0	–	–	47.5	29.9	603.2	1.8	–	1,300.8
1955	1,284.4	–	–	61.3	44.8	1,066.5	–	–	2,457.0
1960	1,752.2	–	–	73.4	88.4	1,234.2	–	–	3,148.2
1965	2,903.9	–	–	143.7	88.6	1,804.5	–	–	4,940.7
1966	3,166.6	94.9	–	170.0	108.4	1,891.1	–	–	5,431.0
1967	3,747.5	587.5	–	203.6	101.1	1,874.9	196.2	–	6,710.8
1968	4,610.5	640.6	–	220.5	102.2	1,987.5	39.1	–	7,600.4
1969	5,420.3	698.0	–	205.6	112.4	2,416.8	- 94.5	–	8,758.6
1970	6,916.3	745.6	–	248.6	100.6	3,080.0	-102.7	–	10,988.4
1971	8,026.5	812.9	–	258.2	119.8	2,653.3	- 35.1	–	11,835.6
1972	9,148.5	826.0	110.5	287.7	132.0	2,664.6	- 1.7	–	13,167.6
1973	10,469.4	897.4	763.4	291.8	71.6	3,287.8	- .8	–	15,780.6
1974	11,603.1	1,019.4	1,022.1	323.7	38.7	4,087.7	- .4	–	18,094.3
1975	14,593.2	1,238.8	1,620.9	427.4	24.7	5,386.4	–	–	23,291.4
1976	15,955.9	1,489.2	2,087.1	481.3	5.5	6,610.7	–	–	26,629.7
1977	18,499.1	1,684.2	2,528.0	450.9	1.2	5,958.8	–	–	29,122.2
1978	18,661.3	1,845.5	2,594.8	502.7	–	6,625.8	–	–	30,230.1
1979	19,965.5	2,124.1	2,865.3	568.1	–	7,218.0	–	–	32,741.0
1980	22,710.5	2,367.5	2,857.1	787.2	–	8,511.6	–	–	37,233.9
1981	27,788.9	2,689.3	3,409.9	866.9	–	9,537.6	–	124.5	44,417.1
1982	33,829.0	3,281.9	4,887.4	1,018.1	–	9,316.8	–	983.6	53,316.8
1983	37,778.5	3,446.4	5,038.9	998.0	–	7,593.7	–	2,091.0	56,946.5

Source: Supply and Services Canada
Final Net Collections of Revenue

The Carter Commission

Tax reform commenced in 1962 with the appointment of the Royal Commission on Taxation, often called the Carter Commission after its chairman, Kenneth Carter. The commission's mandate was "to inquire into and report upon the incidence and effects of taxation imposed by Parliament, including any changes made during the currency of the inquiry, upon the operation of the national economy, the conduct of business, the organization of industry and the positions of individuals; and to make recommendations for improvements in the tax laws and their administration that may be consistent with the maintenance of a sufficient flow of revenue".

The Carter Commission handed down its six-volume report, proposing many sweeping and revolutionary changes in the tax system, in 1967.

Among the recommendations were proposals that personal and corporate income taxes be integrated and corporate profits be taxed at a flat rate of 50 percent, that capital gains be taxed, that estate and gift taxes be repealed and the revenue incorporated into the general tax base (just like wages and salaries, dividends, interest, etc.), that a general averaging tax system be adopted, that sales tax be removed from building materials, that a new tax court be established, and that more official tax information be made available to taxpayers.

Reform

In 1969, based on the work of the Royal Commission on Taxation, the government tabled the White Paper, "Proposals for Tax Reform." Two parliamentary committees – The Commons Committee on Finance, Trade and Economic Affairs, and the Senate Committee on Banking, Trade and Commerce – undertook to assess the proposals. Provincial governments as well as business, industry and private citizens were invited to comment on the paper. In all, some 26 000 letters, briefs, and other submissions were received by the Department of Finance.

As a result of this exchange, the government introduced legislation to amend the Income Tax Act as part of the budget of June 18, 1971.

The 1971 bill (C-259) proposed higher exemptions for individuals and their families, new deductions for employment and child care expenses, a capital gains tax, a new corporation tax, changes in tax treatment for resource industries, new rates for small business, and new provisions for nonresidents investing in Canada.

The new legislation came into effect on January 1, 1972. Bill C-259 resulted in the most radical changes to Canada's taxation system since the passage of the original Income War Tax Act. Following are some of the major provisions introduced under tax reform.

Personal and age exemptions were increased. Child care and moving expenses were now deductible. An employment expense deduction was introduced for almost all individual taxpayers and the personal tax rate lowered. For the first time, one half of capital gains were taxable. Two types of income averaging replaced most of the existing options. The maximum deductible contributions were raised for registered pension plans, deferred profit-sharing plans and registered retirement savings plans.

New incentive measures were instituted to assist the manufacturing and processing sectors of the economy. A dividend tax credit was introduced for taxable dividends from Canadian corporations. The general rate of tax for corporations was reduced. Other measures affected proprietorships, partnerships, the mining and petroleum industries and nonresidents.

Other areas of change

In 1972 Revenue Canada's role was further expanded to collect Unemployment Insurance premiums under the revised Unemployment Insurance Act.

The introduction of indexing in January 1974 was another major change in Canada's taxation system. Under this amendment, personal exemptions are increased and each bracket of taxable income adjusted each year by an inflation factor based on the Consumer Price Index.

Up to the moment of implementation, tax reform was principally the responsibility of the Department of Finance. The responsibility of the Department of National Revenue, Taxation, is to administer the tax laws Parliament places on the statute books.

But in devising new or altered tax laws, the administrative feasibility of a proposal is of utmost importance. Throughout the tax reform period of the 1960's and early 1970's, senior officials of the tax department were frequently consulted by and worked closely with their opposite numbers in the Department of Finance.

Then, when the White Paper was tabled in November of 1969, the tax department immediately established a number of study groups to discuss the various proposals and to learn what they would have to do to be ready to administer them.

There were many plans to be made: the development of new systems, techniques and procedures, and retraining of staff, for instance. A public information programme had to be created.

Within a few weeks of the bill's passing, the department began distribution of pamphlets containing most of the information taxpayers needed in the initial implementation period. These were mailed to taxpayers who would require the information. This programme was accompanied by countrywide advertising.

The answering service at each of the District Taxation Offices was improved and expanded, and an Informal Consultation Service was established at the district offices to deal with difficult problems taxpayers might have. In each office, officers with special training in the new legislation were in touch by telephone with a central group in the head office.

The department also developed a programme of public briefing seminars. Videotape recordings and "problem-solution packages" were prepared for use at seminars organized by groups of business-oriented individuals throughout Canada. District office personnel were available to act as seminar leaders.

Teaching Taxes was developed to help young Canadians learn about taxation.

This period also marked the establishment of a Taxation Advisory Committee of tax experts from the private sector to advise the department, the introduction of an Advance Rulings service and the publication of Information Circulars and Interpretation Bulletins for public distribution. In December 1971, the Tax Review Board replaced the Tax Appeal Board for resolving tax disputes at the quasi-judicial level.

Later The Volunteer Program was set up to give direct assistance to taxpayers.

Part 2

HOW IT IS

"The promises of yesterday are the taxes of today".

W.L. Mackenzie King


CLIC
CLIC
CLIC
TZAR
YGOR

Taxation, the Canadian Concept

The classic definition of tax is a "compulsory contribution levied upon persons, property, or businesses for the support of government," but taxes have been imposed for reasons other than the payment of government expenses. For example, Peter the Great taxed Russian beards to promote the clean-shaven look.

In Canada today, an increasingly large amount of the revenue received by government is not collected through taxes as such but through contributions earmarked for social benefits – pensions, unemployment insurance and the like.

In addition to supporting government, taxes are used for everything from research, transportation, housing, health and welfare, to financing foreign aid, defense, economic development and support, culture and recreation.

Self-assessment

In many countries, tax calculation and deductions are done at source by employers or by government tax collectors. At first glance, Canada's system seems no different – employers deduct income tax from the pay of their employees. However, the important difference is that Canadian taxpayers have the right and the responsibility to check and reassess their income tax status each year.

Our system of tax collection is based on the principle of self-assessment. Every resident of Canada, and any nonresident with Canadian income, has the responsibility of ensuring that taxes have been paid in accordance with the law. On a tax return, the individual lists facts about income and expenses so that the taxpayer and the department can calculate together the share of taxes he or she must pay. In this way, taxpayers check for themselves that they receive fair and equal treatment under the Income Tax Act, and Revenue Canada, Taxation verifies that it is properly administering the tax law.

Voluntary compliance

Under our system, the enforcement of tax law is only as effective as the taxpayers who believe in it, their responsibility and participation. Voluntary adherence to taxation law is closely related to the self-assessment principle and is the cornerstone of our system of tax administration.

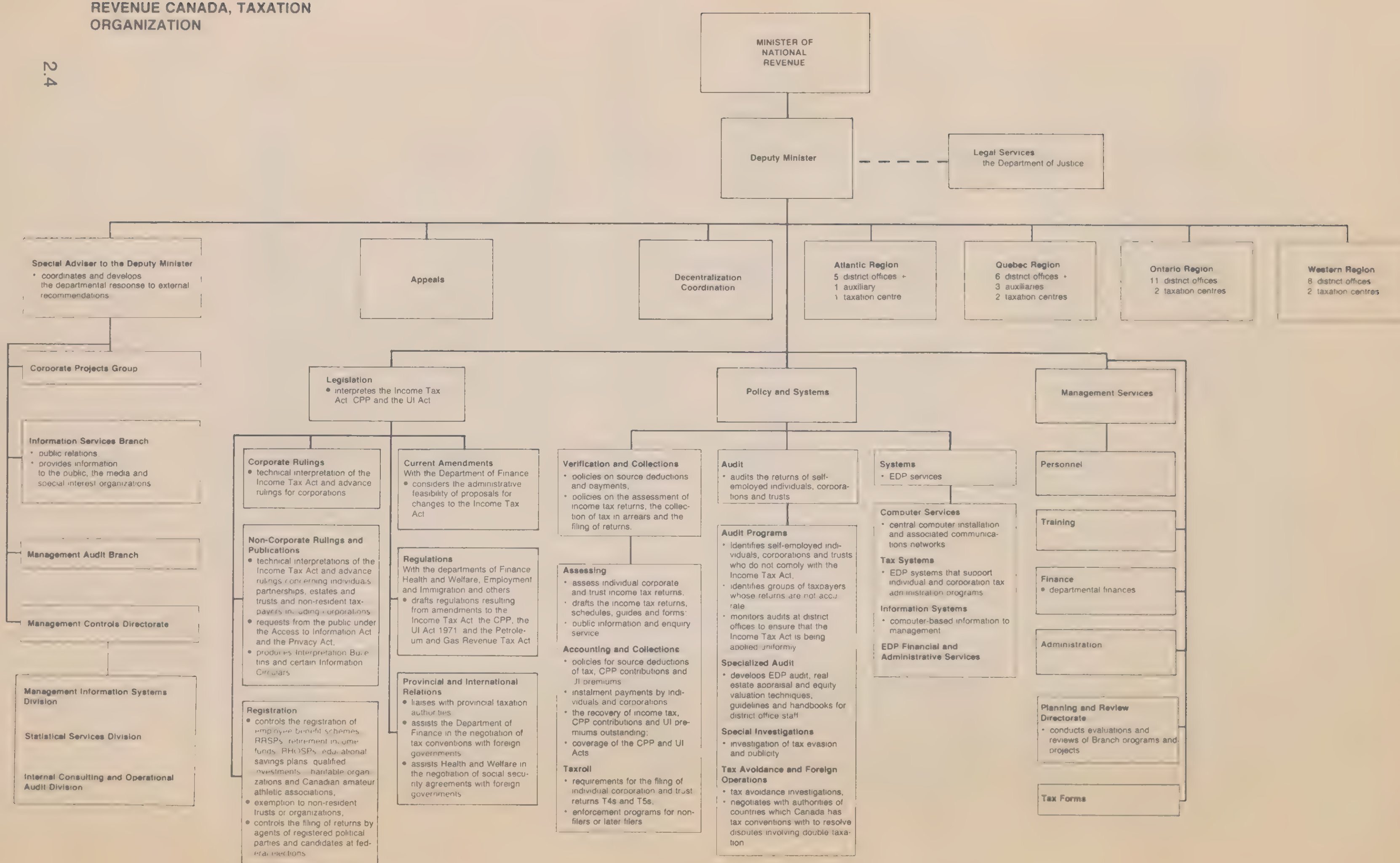
Without the desire to comply with the law, tax collection would become a cat and mouse game with trust replaced by conflict. To encourage public compliance, the department works to foster a climate of public trust by fair, firm and impartial administration of tax law. It also has the power to deter and prosecute tax evaders and tax avoiders through legal means.

The formula is simple: public trust leads to voluntary compliance which in turn leads to a workable self-assessment system. This formula only works if the principles of public knowledge and fair and equitable treatment are practised.

Revenue Canada, Taxation

Under the British North America Act, each level of government has taxing rights and, by agreement between the federal and provincial governments, certain areas of the taxation field are jointly occupied.

REVENUE CANADA, TAXATION ORGANIZATION



Revenue Canada, Taxation collects taxes for the federal government. Under the Income Tax Act it has responsibility for collecting income tax for all provinces except Québec, and corporate tax for all provinces except Ontario, Québec and Alberta which, since 1981, collects its own tax for corporations whose fiscal period began after 1980. Since July 8, 1981 the department has also been responsible for collecting taxes under the Petroleum and Gas Revenue Tax Act.

The department also collects Canada Pension Plan contributions, and, as of January 1, 1972, Unemployment Insurance premiums. (Québec has an independent pension plan similar to the Canada Pension Plan. Benefits are portable between the two; Québec, however, collects its own contributions.)

Organization

Since 1978 Revenue Canada, Taxation has been decentralized to provide more immediate service to Canadian taxpayers.

Seven taxation centres process the returns, correspondence about income tax returns and assessment notices for their areas. Four regional offices coördinate the activities of these taxation centres with district offices. The head office in Ottawa develops plans and policies.

Taxpayers are now served by 30 District Taxation Offices plus auxiliary offices and seasonal tax assistance centres. These offices offer personal help for tax questions or problems and provide information. They also handle audits, appeals, special investigations and some collection actions.

The department is divided into eight branches, which coördinate the activities among various District Taxation Offices and the work of these district offices with that of the rest of the department and with the annual tax cycle. The main branches are headed by Assistant Deputy Ministers under the Deputy Minister, who in turn reports to the Minister. The remaining branches report to the Deputy Minister through their directors.

The department has more than 15 000 permanent employees from coast to coast and, during the filing season, about 6 000 temporary staff are added to this number.

The Ministers of National Revenue

The Department of Internal Revenue

The Hon. Sir William Thomas White	1911

The Department of Customs and Internal Revenue (1918)

The Hon. Martin Burrell	1919

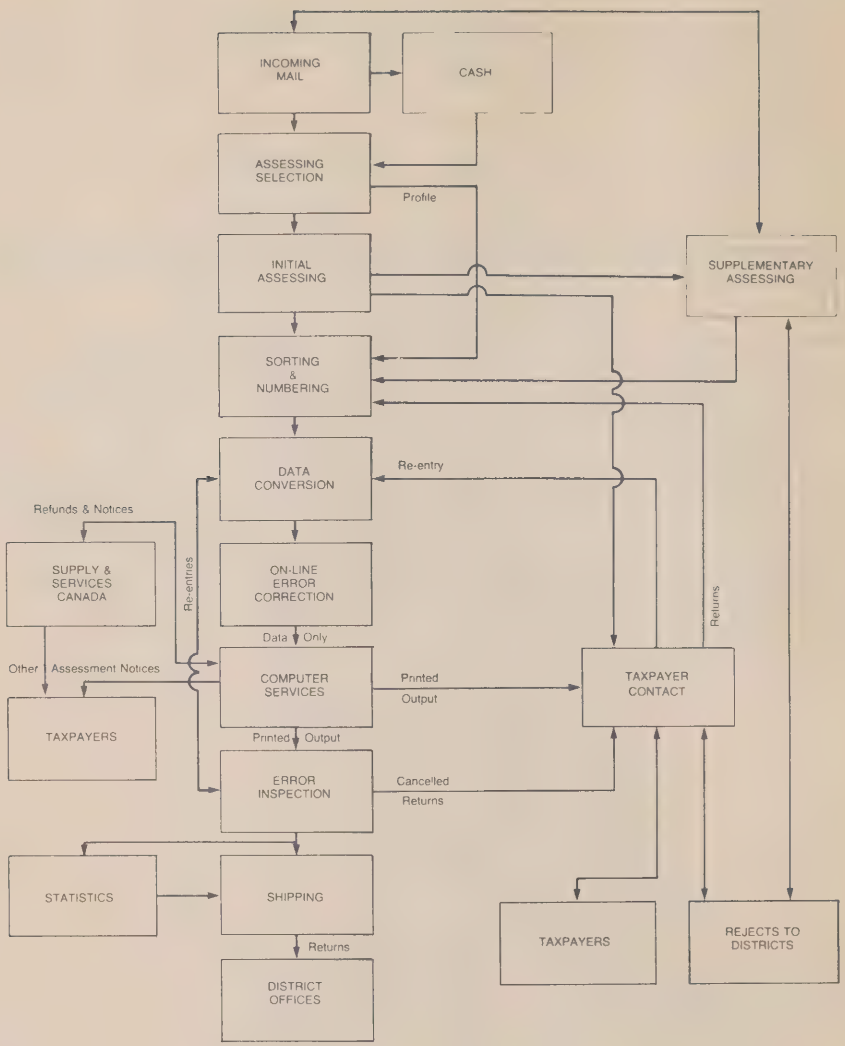
The Department of Customs and Excise (June 4, 1921)

The Hon. Rupert Wilson Wigmore	1920
The Hon. Jacques Bureau	1921
The Hon. Henry Herbert Stevens	1926

The Department of National Revenue (March 31, 1927)

The Hon. William Daum Euler	1926
The Hon. Edmond Baird Ryckman	1930
The Hon. Robert Charles Matthews	1933
The Hon. James Earl Lawson	1935
The Hon. James Joseph McCann	1945
The Hon. Clyde Nowlan	1957
The Hon. Hugh John Flemming	1962
The Hon. John Richard Garland	1963
The Hon. Edgar John Benson	1964
The Hon. Jean Chrétien	1968
The Hon. J.J. Jean-Pierre Côté	1968
The Hon. Herbert E. Gray	1970
The Hon. Robert Stanbury	1972
The Hon. Ron Basford	1974
The Hon. Bud Cullen	1975
The Hon. Monique Bégin	1976
The Hon. Joseph-Philippe Guay	1977
The Hon. A.C. Abbott	1978
The Hon. Walter Baker	1979
The Hon. William H. Rompkey	1980
The Hon. Pierre Bussières	1982
The Hon. Roy MacLaren	1984

PROCESSING


INCOMING MAIL
CASH
ASSESSING SELECTION
Profile
INITIAL ASSESSING
SUPPLEMENTARY ASSESSING
SORTING & NUMBERING
DATA CONVERSION
Re-entry
Refunds & Notices
SUPPLY & SERVICES CANADA
Re-entries
ON-LINE ERROR CORRECTION
Data Only
Returns
Other
Assessment Notices
COMPUTER SERVICES
Printed
Output
TAXPAYER CONTACT
TAXPAYERS
Printed Output
ERROR INSPECTION
Cancelled
Returns
STATISTICS
SHIPPING
Returns
DISTRICT OFFICES
TAXPAYERS
REJECTS TO DISTRICTS

Processing the Return

As the taxpayer closes the slot of the mailbox, the annual rite of filing an income tax return is over for yet another year. At the same time, the processing is just beginning.

The return joins the tax returns of Canada's approximately 16 million Canadian taxfilers in a procedure that will see it sorted, assessed, programmed into a computer, labelled, checked and, if necessary, corrected. Some 6 000 temporary employees have been hired to supplement the more than 3 800 permanent staff at the taxation centres where as many as 600 000 returns may be received on any day.

Depending on where the taxpayer lives, the return will be processed at a taxation centre in Ottawa, Winnipeg, Surrey, Shawinigan-Sud, Sudbury, St.John's or Jonquière.

The taxation centres are at their busiest between March and June when the additional staff are required to handle the volume of mail. A large number of returns from taxpayers expecting a refund are received in mid-March, but approximately one-half of all returns arrive near the April 30 deadline.

Sorting

Once a tax return arrives at the centre, it is sorted according to bulk, then fed into a slitting machine that can open as many as 20 000 envelopes an hour. Any receipts and correspondence included are attached to the return in a given order. Returns with no remittance payments are forwarded directly from the mailroom to the initial assessing section. If there is a letter requiring a response, the return is forwarded to a section that handles correspondence.

Returns with payments enclosed are sent directly to the cash section where the amount on each cheque is verified against the amount indicated on the return. Cheques are put into bundles, endorsed mechanically and microfilmed. Once the amount is credited to the filer's tax account by computer, the cheque is banked and the return continues on its way.

Checking

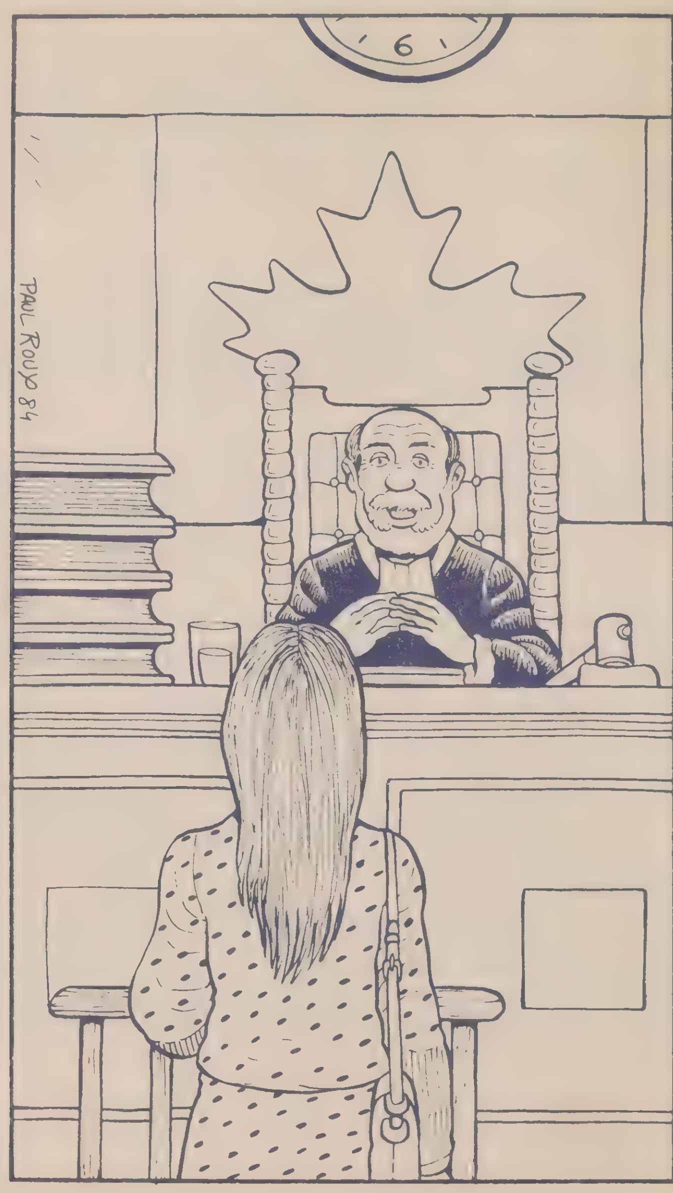
Next, assessors examine the return to ensure it is properly completed for computer processing. They check for the necessary information slips and receipts and that the amounts shown correspond to the amounts on the return.

If a tax return lacks information or receipts, it must be pulled from the mainstream of returns while the rest move on to the next phase of the process. Every year approximately 500 000 returns are sent in without all the necessary information. A correspondence section handles thousands of incomplete returns daily and must notify each taxpayer, usually in writing, of the need for additional data. Meanwhile, the return comes to a standstill for it can't be processed until the information or additional receipts are received. If the taxpayer does not reply to the request for information within three weeks, a return may be adjusted and the refund subsequently reduced.

Each year, three out of every four Canadian taxpayers get refunds, but the biggest single cause of delay in issuing them is lack of information on the tax return. Missing may be receipts for charitable donations, Registered Retirement Savings Plans or tuition fees. Maybe a schedule of fees for moving expenses was forgotten or a wife's name omitted, or the children's ages. Whatever the reason, these omissions mean a delay in the processing of a return and the issuance of a refund.

Appeals

Taxpayers who do not agree with Revenue Canada, Taxation's assessment may send a Notice of Objection by registered mail to the Deputy Minister. An appeals officer will conduct an informal review. The taxpayer may also appeal directly to the Tax Court of Canada. If the Minister of National Revenue consents, appeals may be taken directly to the Federal Court of Canada.



Data Processing

When the tax return is ready for the next phase of the process, it is assigned a locator number, which allows it to be traced by computer if it needs to be withdrawn from the system at some point. Returns remain in their numerical order throughout the rest of the process.

Individual tax returns are processed by direct data entry which is responsible for the efficient, quick processing of millions of returns. Information from the return is keyed into a terminal connected directly to a computer. As the operator enters the necessary data, it appears on a video screen. The computer checks the identification of each taxpayer and verifies the calculations, passing on correct returns and alerting the operator to those with errors. The main computer is probably one of Canada's most elaborate and advanced. It is capable of calculating and checking all the facts and figures provided by about 16 million Canadian taxpayers. Simple returns can be verified against copies of T4 slips sent in directly by employers in February. It automatically applies any tax credit or prior balance owing as recorded in its memory banks. The same computer produces information on tape for printing assessment notices, explanations of errors and refunds. It will also update each person's individual records with the latest information.

Correcting

Most errors on the tax return can be detected by the computer. An explanation of any changes will be included on the assessment notice. When corrections are made, the majority of changes are in favor of the taxpayer.

If the tax return is one of the few that cannot be fully corrected at the data processing stage, it will be forwarded to another section where it is reëxamined and corrected as necessary.

The final steps

The return is then given a special label to indicate that its processing at the taxation centre is complete. When the taxation centre is finished, it is filed away. Assessment notices are then printed and sent to taxpayers who will not receive refunds. Computer tapes indicating refunds are forwarded to the Department of Supply and Services. The refund cheque and assessment notice is issued and mailed from there.

When the taxpayer has received a Notice of Assessment, he or she may decide it's time to throw away all those extra receipts and slips they have been saving. However, when the postassessing review programme begins at the District Taxation Offices, the taxpayer may be asked to present receipts as proof of a deduction or expense claimed on the tax return. If they can't be provided, the claim may be disallowed, thereby increasing the tax.

Moreover, an income tax return may be reassessed for up to four years from the date of the original notice of assessment. In some circumstances reassessments may be allowed even further back. Reassessments may also be requested by the taxpayer.

Refunds

It normally takes at least a month between the time a completed tax return is received and the time a refund is sent. If a return is complex, if there have been errors or omissions or if it is among the approximately six million returns that arrive around the end of April, the process may take more time.

Any inquiries about an assessment or refund should be made at the District Taxation Office.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Delinquent Taxpayers

Some taxpayers are negligent or deliberately try to avoid paying taxes. Records of the previous years are computer-searched to detect cases where the income pattern suggests a current return should be reviewed. Payroll reports from employers are carefully checked to ensure that employees have sent in returns and have filed them correctly. In addition, searches are made of professional and other directories to determine if tax returns are being filed by people listed. Information about business is gathered by payroll auditors and tax auditors while working in the field and from various third-party sources.

The detection of nonfiling corporations and employers is also carried out through similar techniques.

A taxpayer who fails to file a return after the tax department asks for one is liable to prosecution through the courts.

Some taxpayers admit they owe tax when they file but don't pay it. Fortunately only about 10 percent of taxpayers are in this category. To avoid discriminating against the majority of taxpayers who pay their taxes promptly, Revenue Canada, Taxation takes a firm approach in dealing with taxpayers who do not send in their tax payable.

Circumstances may prevent the payment of taxes owing within the required period. When this occurs and a taxpayer remits a partial payment proposing an arrangement to pay the debt in a short time, the department will normally agree. Where this is not possible, the department may accept collateral security for the unpaid balance. However, this does not relieve the taxpayer of making payment as soon as possible.

Taxpayers who do not pay voluntarily may have the taxes collected from wages by garnishments, from other income or bank deposits, or through the seizure and sale of assets or both.

Voluntary disclosures

If a taxpayer who has failed to file a return or who has filed a false return makes a complete voluntary disclosure he or she is permitted to settle the liability by paying the tax and interest due without penalty or prosecution. However, the disclosure must be full and complete. If the department finds that information has been falsified or concealed, the taxpayer could still be liable to prosecution. Also, the voluntary disclosure provisions to not apply if the department has started an investigation or audit.

Tax evasion

In technical terms, tax evasion is the commission or omission of an act knowingly, with intent to deceive, or a conspiracy to commit such an offence, so that the tax represented to have been paid or payable is less than the tax liability under the law.

Revenue Canada, Taxation has a field force engaged in the investigation of suspected cases of tax evasion.

If the investigators conclude from the accumulated evidence that prosecution should be undertaken, full particulars of the case are forwarded to the Department of Justice, which is responsible for prosecutions under the Income Tax Act.

Tax avoidance

Taxpayers may arrange their income, business, investments, etc. to minimize the tax they will have to pay within the law.

Occasionally a taxpayer may attempt to use a scheme to defer, reduce or completely avoid tax payable under the law – this is tax avoidance.

If an investigation shows that the scheme was illegal, the taxpayer will be reassessed under the relevant sections of the law. If the scheme skirted the law but thwarted its intent, the department may recommend an amendment to the law to prevent the scheme from being used in future years as well as prosecute.

Communications

Most taxpayers' communications with the department consist of receiving an income tax return early in the year and a refund cheque or assessment notice a few months later. However, Revenue Canada, Taxation has several communications programmes.

Information

District Taxation Offices handle most of the problems and requests of taxpayers. Public Relations Officers answer personal and telephone enquiries about general matters, filing information and the status of returns and refunds. They also have a list of volunteers trained by the department to help people with special needs fill out their returns.

Taxation centres answer written enquiries about the status of returns and assessments.

Revenue Canada, Taxation prepares public service information for radio, television and newspapers to aid taxpayers with their questions and to give new information about tax laws.

The department also issues a variety of publications for taxpayers and for tax professionals. These publications are available free from District Taxation Offices.

Tax Forms

Departmental officials work continually to simplify forms, to help the taxpayer in reporting income and to facilitate speedier computer processing. There are forms for reporting income and calculating tax payable, forms for paying taxes by instalment, and forms for employers, trustees and others who report payments made to taxpayers and the tax they have deducted at source from those payments.

Following changes in the law, there are usually significant changes to the tax return and tax guides. Many other changes are also made from year to year to simplify areas where taxpayers have encountered problems or to assist in the processing of the return after it is filed.

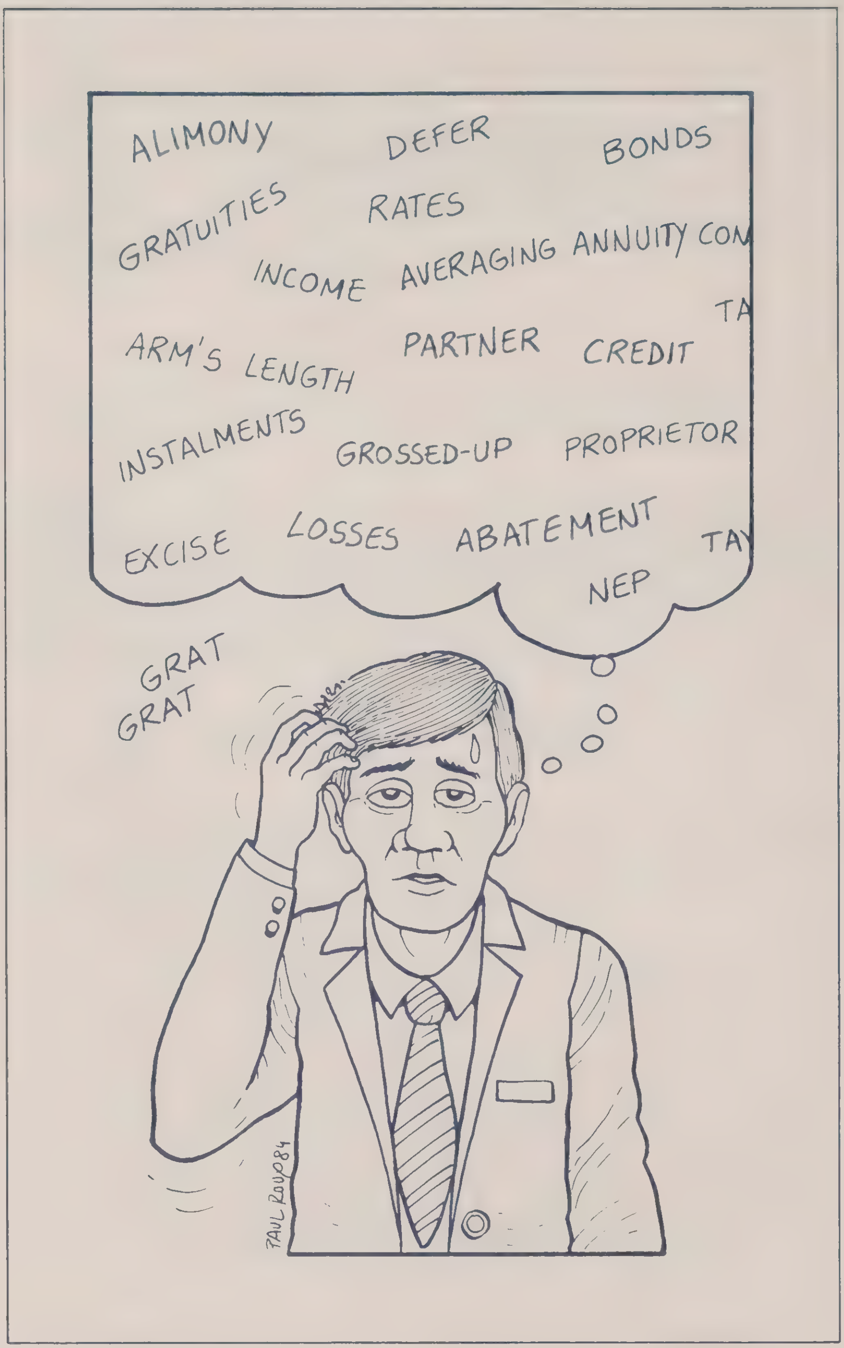
By September, modifications to the new return for that year must be completed, as there are over 20 different versions of the tax return to be printed. Each province and territory has its own tax credits and rates, and this requires a different form in both official languages. Tax returns are also coded for each of the district offices, and personal identification labels must be applied to a return for every taxpayer who filed a return the previous year.

Taxpayers who have filed returns automatically receive an appropriate form in English or French in the mail from Revenue Canada, Taxation. New taxpayers can get forms from the District Taxation Office or a post office (or Caisses populaires in Québec).

TAX TERMS

"If a man obtains increased command over goods and services for his personal satisfaction we do not believe it matters, from the point of view of taxation, whether he earned it through working, gained it through operating a business, received it because he held property or made it by selling or was given it by a relative..." or a buck is a buck.

Recommendations of the Royal Commission on Taxation


ALIMONY
DEFER
BONDS
GRATUITIES
RATES
INCOME
AVERAGING
ANNUITY
ARM'S LENGTH
PARTNER
CREDIT
INSTALMENTS
GROSSED-UP
PROPRIETOR
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Abatement Québec taxpayers are entitled to a Refundable Québec Abatement of 16.5 percent of the basic federal tax. It is a reduction of federal tax for Québec residents to compensate for the lack of a cost-sharing arrangement between the provincial and federal governments.

Accounts receivable See Accrual.

Accrual method of accounting Under the accrual method, income is credited in the year it is earned regardless of when payment is received. Expenses would also be deducted when they were incurred, whether they were paid or not. This method is used by professionals and businesses when accounts receivable, inventory and accounts payable are important in determining income, costs and expenses.

Acquisition means the obtaining of an asset by purchase, gift or transfer.

Adjusted cost base is the original price or cost of something which has been raised (or lowered) because of additions or carrying charges, etc.

Alberta residents may claim a Renter Assistance Credit. The province also extends an Alberta Political Contribution Tax Credit for a percentage of political contributions. The credit is calculated in the same manner as the federal Political Contribution Tax Credit. Additional details can be found by reading the Alberta Tax Credit form, T1C (ALTA.).

Alimony is the money paid to support a spouse under a separation agreement. To be deductible for tax purposes, it must be paid according to a written separation agreement.

Annuities are investment or insurance plans which are bought, with, for example, the amount from an RRSP, to provide annual income for the future. See also Pensions.

Appeal If you file a Notice of Objection about your tax assessment and that notice is rejected by the tax department you may take (appeal) this decision to the Tax Court of Canada. To appeal you simply write the reasons for your appeal giving all the facts concerned to the Tax Court, 381 Kent Street, Ottawa, K1A 0M1. The appeal is free.

If this court also rejects your appeal you may continue it to the Federal Court of Canada or the Supreme Court of Canada.

April 30 is the last day for filing an income tax return when tax is owed for the previous year. It is also the date by which that balance of tax due must be paid. After this date interest is added to the amount owing.

Arm's length is a legal term to describe associations between persons and companies where the relationship is impartial. A person who is not a director or part of a company could be dealing at arm's length with that company.

Assessment See Notice of Assessment.

Assets are property, investments or valuables that belong to a person or business.

Averaging is a means of evening out income over several years. Farmers may average their income in five-year blocks. Performers, artists, athletes and others who have high incomes in some years may average part of it forward to years with lower incomes. Income is averaged to take advantage of lower tax rates.

Balance due is the amount of tax payable that is left after all tax credits and amounts of tax already paid have been subtracted. It is to be paid by April 30 of the year following the taxation year or else interest will be added. It is paid by attaching a cheque or money order made out to the Receiver General to the front of the tax return. Sometimes it can be arranged to pay this balance in several payments after the deadline.

Balance sheets are statements of the financial position of a business. They state the assets, liabilities, debts, capital, business resources, etc. A balance sheet is required with the return of a taxpayer using the accrual method of accounting.

Bank interest See Investment.

Benefits See Taxable allowances.

Bonds are certificates issued by companies and governments showing that they have borrowed a certain amount of money from the holder, will pay it back by a certain date and how much interest they will pay for the loan. See also Investment.

Books include the complete accounting records of the money received and spent by a business.

British Columbia gives the British Columbia Political Contribution Tax Credit to its residents. They may credit a percentage of their political contributions to their tax payable. The credit is calculated in the same way as the federal Political Contribution Tax Credit. Details are on form T1C (B.C.). The province also has a Housing and Employment Development Bond Tax Credit for its residents.

Bursary See Scholarships.

Calculation See Schedule 1.

Calendar year January 1 through December 31 – see Fiscal year.

The **Canada Pension Plan** is an insurance programme designed to help Canadians provide income for their retirement. It also provides income if they become disabled.

Working Canadians between the ages of 18 and 70 must contribute to it (or the Québec Pension Plan). Those already receiving a pension from the plan, of course, are excepted.

Contributions are directly related to annual earnings. An employee contributes 1.8 percent of salary above the basic exemption, up to a maximum. The employer contributes an equal amount. Self-employed persons pay a 3.6 percent contribution up to the same maximum.

Each year the basic exemption, maximum and benefits are adjusted according to the cost of living. Complete details can be found in *Canada Pension Plan Contributions and Unemployment Insurance Premium Tables*.

See also Québec Pension Plan.

Capital cost allowance (CCA) As assets of a business such as buildings or equipment, including any additions or improvements, are expected to have a useful life of some years, a yearly deduction towards their cost, called a capital cost allowance (depreciation), is permitted for income tax purposes.

The depreciable assets of a business are grouped into classes. The annual deduction for each class is calculated on the basis of rates established by law. The Income Tax Guide lists the most common classes of assets and their rates. The amount allowed for one year is calculated by

1. subtracting the amounts of depreciation allowed in previous taxation years from the cost of all assets in one class,
2. multiplying this balance by the appropriate percentage rate.

When an asset, such as an automobile, is used partly for business and partly for personal use, capital cost allowance may be claimed only on the portion of the asset used for business purposes as follows:

$$\frac{\text{number of business kilometres travelled during the year}}{\text{total number of kilometres travelled during the year}} \times \text{total capital cost allowance}$$

Capital cost allowance is calculated on Schedule 8.

Capital gains are the profits made on the sale (or other disposition) of a capital property or asset.

Carrying charges are the amounts of interest or fees, etc. paid on money borrowed to earn income or on investments.

Cash method of accounting Under the cash method, income includes only what an individual actually received in cash, property or services during the year. Expenses are deducted in the year when they were actually paid. This method of accounting may be used by farmers, fishermen and salespersons who work for commissions.

Charitable donations is the sum of all amounts given to registered charitable organizations. Such donations must be accompanied by official receipts from the organization. Charitable organizations are registered by Revenue Canada, Taxation as nonprofit organizations which have exemption from tax on income.

Child care expenses are the costs of day-care, school or camp that a parent must pay to have a child looked after so that she or he is free to work. More details are given on Schedule 5.

Child Tax Credit In 1978, the federal government introduced the Child Tax Credit to increase the income for families whose income is lowered by inflation.

The credit is paid in advance for the current year (not for the previous taxation year) for each eligible child. An "eligible child" is one under 18 who is entitled to the Family Allowances payment for January of the current year. The Statement of Family Allowances (TFA1) which Health and Welfare Canada sends to recipients of the allowance usually indicates the number of eligible children. A child born or immigrating late in the taxation year would also be eligible if Health and Welfare Canada has issued an award letter (which must be attached to the claimant's tax return) for it.

This credit is given to the person who is entitled to receive the Family Allowance payment for the January after the taxation year. To apply for the Child Tax Credit a parent or guardian must

- complete an income tax return,
- complete the Child Tax Credit schedule(10) and attach it to the income tax return,
- attach a copy of the Statement of Family Allowances (TFA1) to the return,
- send the completed return to Revenue Canada, Taxation.

CHIP See Grants.

Confidentiality Under the Privacy Act income tax returns and other related information are kept private. They may be given only to those who are allowed by law or to those whom a taxpayer authorizes.

Credits are amounts of tax considered to have been paid and deducted from tax payable. They are given for political contributions, business investments or to help pay for the care of children.

Customs duties are the taxes to be paid to be allowed to bring foreign goods into the country.

Deductions are amounts of money which may be subtracted from income to find one's taxable income. They may be made for expenses related to work or for money that is put away now but which will be taxed later. For example there are deductions for:

contributions to the Canada or Québec Pension Plan,
Unemployment Insurance premiums,
Contributions up to $3 500 to Registered Pension Plan of one's employer,
Registered Retirement Savings Plan premiums,
Registered Home Ownership Savings Plans,
annual union or professional dues,
tuition fees,
child care expenses,
business investment losses,
carrying charges,
moving expenses,
income-averaging annuity contracts,
alimony or separation allowance,
petroleum exploration and Canadian motion picture and videotape investments,
interest, dividends and capital gains,
pension income,
blind persons or persons confined to a bed or wheelchair,
education,
gifts to Canada or to a province,
noncapital or capital losses of other years.

Deductions may also be transferred from one's spouse on Schedule 3.

Deemed is a legal term used when something is considered to be something else for certain purposes. For example, if a farmer gives his farm to his child the farm is "deemed" to have been sold for the purpose of establishing the capital gain.

Defer means to put off until a later time.

Dependant A relative (son, daughter, niece, nephew, aunt, uncle, mother, father, etc.) spouse or other person for whom the taxpayer provides the money to live is the taxpayer's dependant.

Depreciable means property that loses value as it is used over the years. Cars, farm equipment and business machines are depreciable. See Capital cost allowance for an explanation of the calculations of depreciation allowances.

Disposition is the getting rid of property by sale or gift.

Disposition of capital property See Schedule 2.

District Taxation Offices are local branches of the tax department. Tax experts there answer enquiries and distribute tax information. Others conduct audits and investigations.

Dividends See Investment.

Education deductions are allowed to postsecondary students who attend an approved school full time to compensate for the expenses of living, books, etc.

An **Employee's Tax Exemption Return** (TD1) is the first income tax form a person is required to complete when starting a new job. It is used to tell an employer how much to deduct from the employee's pay for income tax.

The form is not difficult to complete. First, for identification, the employee indicates his or her name and address, Social Insurance Number and date of birth at the beginning of the form.

On the reverse of the form, the employee then claims the basic personal exemption and any other exemptions, such as the age exemption, disability deduction, married or equivalent-to-married exemption, exemption for wholly dependent children, exemption for other dependants, and student deductions, for which he or she is eligible. The TD1 form explains who is eligible for any of these exemptions.

The Family Allowance payments that will be received during the year are then deducted. The result is the "net claim" which is transferred to the front of the form. This figure must also be looked up in the Table of Net Claim Codes to find the code to enter in the next box. The employer uses this code to find how much tax must be deducted from the wages of the employee.

If income to be received will be less than the "Net Claim", the Claim For Exemption from Tax Deductions should be completed so that the employer will not deduct any income tax from the amount earned. This situation may occur with a summer job or part-time employment.

Employment income See Salary, Commissions, and Gratuities

Equivalent-to-married exemption Single, divorced, separated or widowed taxpayers who support a dependent relative may claim a larger exemption, equivalent to a married exemption, for the relative if their relative did not earn more than a certain amount.

Excise is the term for taxes on the manufacture, sale or use of things. There are excise taxes on tobacco, alcohol and gasoline.

Exemptions are amounts of income free of tax. They are given for living costs (the basic personal exemption), the lack of earnings (age exemption), and the costs of supporting a spouse (married exemption) or children (exemption for wholly dependent children). These exemptions are fixed amounts each year which are to be deducted from income. See also Schedule 6.

Exemptions from tax deductions can be made through the "Employee's Tax Exemption Return" for income that will be less than a person's exemptions and deductions on an income tax return. Exemptions from tax are also given to charitable or nonprofit organiza-

tions. Certain types of income such as lottery winnings and veterans' allowances are also exempt from tax.

Expenses The net income from a business is the total revenue minus those expenses which were paid out to earn the income. Expenses which are reasonable expenses for the particular type of business operated and necessary to the development and maintenance of the business are allowed to be deducted for tax purposes. Personal, living or other expenses unrelated to the business are not deductible.

Family Allowances are payments made by Health and Welfare Canada for the welfare of Canadian children under 18. Alberta and Québec also pay similar allowances. The allowances are usually paid to the child's mother but are paid to fathers, guardians or even institutions who care for the child. These allowances are taxable income.

A **Federal tax reduction** is an amount of up to $200 which is subtracted from the federal tax as calculated according to the tax rates.

Fellowships See Scholarships.

Financial year See Taxation year.

Fiscal year The income from a business or profession may be reported by a fiscal period which may or may not coincide with the calendar year. It may not, however, be longer than 12 months. The fiscal period of a business is normally established when the first income tax return is filed.

Forward averaging is a method of spreading income. A taxpayer may choose to put part of his or her income into a forward averaging option. This part is taxed now at the highest rate. When the taxpayer has a year with a low income, part or all of this amount may be included in current income and the tax paid credited to tax payable. In this way people such as those in sports or entertainment who have large amounts of income in some years may put some of it aside for a year when their tax rate is lower.

Gifts to Canada or a province are donations of money or things given to the government of Canada or one of the provinces or territories. The value of these gifts is deductible from income. Examples would be gifts of a famous person's papers to a library, paintings to an art gallery or historical items to a museum.

Grants The Government of Canada gives money to Canadians who make improvements to their home to reduce the amount of energy consumed in heating it. Two main programmes are the Canadian Home Insulation Program and the National Energy Program administered by the Ministry of Energy, Mines, and Resources.

Gratuities and tips are gifts given in return for a service connected to one's job. They are usually given to waiters, porters and taxi drivers.

Grossed-up dividends are used in calculating tax and the interest, dividends and capital gains deduction. To be grossed-up their value is increased by one-half.

The **Guaranteed Income Supplement** is a welfare plan of payments made by Health and Welfare Canada in addition to Old Age Security to provide senior citizens with little or no other income more money to live on. It is not taxable but it must be included in a spouse's net income when calculating the married exemption or transferring deductions on Schedule 3.

Income Employment income is the sum of salaries, wages, and benefits, tips and commissions earned while working for another person or for a business.

Personal income includes the money made from nonbusiness sources such as investments or capital gains.

Income from self-employment includes the profits from a profession, calling, trade, manufacture, shop, commercial enterprise or even a hobby.

If a person is the sole **proprietor of a business**, the salary and profits earned by the business are the personal income of that proprietor. Income from the business also includes the cost of goods which were taken from stock for personal use or consumption. If the **business is a partnership**, the business income is divided among the partners according to their share of the partnership. It is also taxable as their personal income. The profits of a business are considered taxable income whether they were withdrawn for personal use or reinvested in the business.

Income Averaging Annuity Contracts were plans purchased with some of one year's income so that it could be spread over several years. In this way the income could be taxed at lower rates. They were replaced by forward averaging.

Income tax deductions are taken by most employers from the salary or wages paid to their employees. The amount to be deducted is found in the tax tables provided by Revenue Canada, Taxation. Tables have been calculated according to each province's tax rates. In Québec, employers use provincial tax deduction tables in addition to the federal tables.

First the employer must calculate the employee's salary or wages. Salary and wages must include the value of free board and lodging plus any other taxable allowances or benefits. Then the employer deducts (1) the employee's contribution to a registered pension plan, (2) the CPP or QPP contributions and (3) UI premiums.

From the Employee's Tax Deduction Return, the employer takes the Net Claim Code. In the tables the employer finds the amount of taxable pay for the appropriate pay period then deducts the amount under the Net Claim Code.

See also Payroll deductions and Remittance.

Income tax returns are the forms used to figure out how much tax one has to pay. There are T1 Specials which are sent to taxpayers who have relatively simple tax calculations. There are also T1 Generals for those who are filing for the first time or who have a number of sources of income and deductions. The T2 is the return used by corporations and the T3 by estates and trusts. Each of these is available in English and French. Each is also coded for the taxation district and for computer processing. Forms are also different for each province or territory (because the provincial tax rates are different) and for nonresidents.

Income tax worksheets are working papers used to adjust trial balances for the statements of income and expenses and the balance sheets required with income tax returns for businesses.

Indexed Security Investment Plans are ways to invest money in securities which have their values adjusted according to the Consumer Price Index. By adjusting these values, the taxpayer has only to pay tax on the real profit.

Information Circulars are leaflets published by the tax department to provide detailed explanations of a variety of tax subjects.

Information slips are forms used by employers and businesses to tell Revenue Canada, Taxation and taxpayers how much was earned and how much tax was deducted from it. They are forms such as the T4, T5, T4CHIP, etc.

Interest See Investment.

Instalments As a general rule, tax is due when money is earned. Most working people have tax deducted from their salaries or wages by employers. Taxpayers whose income does not have tax deducted at the source normally pay their tax in instalments. Such income can come from self-employment, rentals, capital gains, sales, interest, dividends, investments, etc. Since this type of income is not received regularly, tax owed is paid four times during the year – March 31, June 30, September 30 and December 31. Farmers and fishermen pay two-thirds of their tax in one instalment by December 31 of each year. Any balance owed is due by April 30 following the taxation year involved.

A taxpayer who is not a farmer or fisherman must pay these quarterly tax instalments if tax was not deducted at source from at least three-quarters of the net income, if federal income tax will exceed $1 000 for the current year and was more than $1 000 the preceding year. Instalments are calculated by dividing by four the estimate of what the tax payable will be for the year or the actual tax paid for the previous year. The final accounting is done on the tax return.

Like most working Canadians, a self-employed taxpayer is required to contribute to the Canada Pension Plan (or Québec Pension Plan). These contributions are also included in each quarterly instalment. A self-employed person is not required to pay Unemployment Insurance premiums.

Revenue Canada, Taxation provides Instalment Guides for Individuals (T7B Individuals General, T7B Individuals Special) and an Instalment Guide for Farmers and Fishermen (form T7B Farmers and Fishermen) containing the instructions and forms needed for instalment payments. Once the first instalment payment is made, the taxation centre issues a receipt with an attached form (form T7DR) for making the next payment.

Interpretation Bulletins are leaflets which state the tax department's interpretation of various parts of the Income Tax Act. They are published to tell the department's auditors and assessors what to do and the public, especially accountants and tax lawyers, etc. what the law means.

Investment When a taxpayer buys bonds from governments or other oganizations, shares or other securities from a corporation or lends money in mortgages or loans he expects to get interest or dividends as income from these investments. Such income is taxable but some types of it qualify for the interest, dividends and capital gains deduction which is calculated on Schedule 4.

Losses are the amounts of money lost when what is paid out is more than revenue or when the selling price is smaller than the purchase price. See non-capital, capital and restricted farm in the income tax guides.

Maintenance is the support paid to an exspouse after a divorce. To be deductible for tax purposes it must be according to a court order.

Manitoba allows its residents a Cost of Living Tax Credit, a Property Tax Credit and a Political Contribution Tax Credit for a percentage of political contributions. More information can be obtained by reading the Manitoba Tax Credit Programs form (T1C (MAN.).

Medical Expenses above 3 percent of one's net income may be deducted in calculating taxable income. These include the expenses of doctors, dentists, medical care and such related costs as prescriptions and items needed to ensure health or to overcome a handicap. They are calculated on Schedule 9.

New Brunswick offers a New Brunswick Political Contribution Tax Credit which is calculated in the same manner as the federal Political Contribution Tax Credit on form T1C (N.B.).

Net income is the remainder after certain deductions have been subtracted from the total income.

NEP See Grants.

Nonresident Someone who has income from a Canadian source but who lives outside Canada is a nonresident. Their Canadian income is taxable in Canada and taxes must be withheld from it at the source. However, people who are in the armed forces or who work for the government, for example, are considered residents for tax purposes. More information is in the pamphlet, "Living Outside Canada".

Nontaxable income Examples of income that are not taxable include: the Child Tax Credit, the Guaranteed Income Supplement, welfare payments, lottery winnings, Spouse's Allowance, veteran's allowances, certain disability pensions and worker's compensation payments in some cases.

Northwest Territories residents pay territorial tax (the equivalent of provincial tax) along with their federal income tax.

A **Notice of Assessment** is sent to each taxpayer after the return is processed. It tells the taxpayer if any changes or corrections were made to the return and what they were. It also tells the taxpayer what refund is to be paid or how much tax is owing.

A **Notice of Objection** may be sent by any taxpayer who thinks his return has not been assessed correctly. It must be filed within 90 days of receiving the Notice of Assessment at the District Taxation Office.

Nova Scotia's tax credit is a Political Contribution Tax Credit. The credit allowable is calculated in the same manner as the federal Political Contribution Tax Credit on form T1C (N.S.).

Old Age Security (OAS) is a pension plan for all Canadians 65 or more. It is paid for by the federal government out of tax revenues. The plan is administered by Health and Welfare Canada.

Ontario tax credits consist of a Property and Sales Tax Credit, a Temporary Home Heating Credit, and a Political Contribution Tax Credit which is calculated in the same way as the federal Political Contribution Tax Credit. These four credits make up the Ontario tax credit programme for people under 65. They are claimed on form T1C (ONT.) which is filed with the income tax return.

Ontario has a separate tax grant programme for senior citizens. The Property Tax Grant and the Sales Tax Grant are claimed directly from the province. These taxfree grants replace the Ontario Tax Credits claimed when filing an income tax return.

Operating expenses are the day-to-day costs of running a business such as the expenses for gasoline, electricity, office supplies, etc. They do no include the cost of buildings, machinery, etc. that are used for several years.

Pamphlets are published by Revenue Canada, Taxation to explain various tax subjects to taxpayers. They are available from the District Taxation Offices.

Partner People who own a part of or share a business are partners in that business. See also Income.

Part-time jobs are those using only part of regular working hours. They may be casual or permanent. Nevertheless, part-time income, regardless of how small, even if earned after the regular job or whether or not a T4 Supplementary slip is received, must be included in employment income.

Payroll deductions Eighty-three percent of all personal income tax paid is deducted from taxpayers' wages or salary by employers and sent each month to Revenue Canada, Taxation. Employers also deduct Canada Pension Plan or Québec Pension Plan contributions and Unemployment Insurance premiums for their employees and send them with the income tax.

See also Tables, Canada Pension Plan, Québec Pension Plan, Income tax deductions and Remittance.

Penalties are amounts of money that must be paid on overdue taxes. They could include interest, fines or even imprisonment.

Pensions are plans usually set up through employment to set aside part of one's income for retirement. People who retire and receive pensions, superannuation benefits, annuity income or lump sum payments including those from foreign sources must report this as income. The T4A Supplementary slip shows the amount of pension income and also tax deducted at source.

Personal refers to assets, stock or expenses used for one's own living. Examples are furniture, a home, jewellery, food supplies and a car used for pleasure trips.

Principal residence is the home in which a family lives. There are no capital gains taxes due on the sale of it.

Proceeds of disposition are the selling price or the value when an item is given away.

Processing is what happens to an income tax return from its arrival at the Taxation Centre to the sending of an assessment notice.

Professional or union dues are fees paid for membership in an organization related to one's employment.

Proprietor See Income.

Provincial tax credits Residents of Alberta, British Columbia, Manitoba, New Brunswick, Nova Scotia, Ontario and Saskatchewan may have credits from their provincial government which are deductible from their total tax payable. The Yukon Territory also gives a tax credit.

Québec collects its own provincial taxes. See Abatement and Transfer of tax deducted.

Québec Pension Plan The province of Québec maintains its own pension plan which is equivalent to the Canada Pension Plan. Contributions are handled by the provincial government and reported on the province's income tax form.

The two plans are interchangeable. Québec residents will have their contributions to the Québec plan credited to CPP if they move to another province and residents of the other provinces will have the same credits on moving to Québec.

Rates of tax are percentages of income, cost, etc. that must be paid as taxes. The federal government through the Department of Finance sets the basic income tax rates which vary progressively with the amount of income. Provincial and territorial governments set their rates as a percentage of the federal rate. Current rates are given on Schedule 1 and in the Tax Tables of the *Student's Workbook*.

Real estate See Schedule 7.

Receipts are statements that an amount has been paid. Original or certified receipts (not copies) are required to prove that a taxpayer is entitled to such deductions as union dues or child care expenses. Other receipts such as those showing business expenses must be kept on file as part of business records.

Records include the account books and sales and purchase invoices, contracts, bank statements and cancelled cheques. They must be kept in an orderly manner at the place of business or residence in Canada for at least six years. The books and other documents must be available to officers of Revenue Canada, Taxation for audit purposes.

Refund is the overpayment of tax returned to the taxpayer after filing a tax return. It is the amount remaining after the total of tax deducted at source, the tax paid by instalments plus all credits the taxpayer is entitled to has the tax payable subtracted from it.

Registered Education Savings Plans (RESP) are methods of saving money for the postsecondary education of a child. Money paid into the plan is not deductible from income but interest earned on a plan is not taxable income.

Registered Home Ownership Plans (RHOSP) are controlled (so registered by Revenue Canada) savings plans which are designed to allow taxpayers to put money away to buy a home without paying income tax on it.

A **registered pension plan** is usually a formal insurance plan set up through an employer to provide money for the employee's retirement. An employee may contribute a percent of salary up to a maximum of $3 500 each year for current employment to this plan. Sometimes further amounts may be contributed to make up for contributions that could have been made in previous years.

Registered Retirement Savings Plans (RRSP) are special plans, usually offered by banks and trust companies, which allow taxpayers to put money away for their retirement without having to pay income tax on it now. Since deposits are controlled by maximums and withdrawals are taxable these plans must be registered with Revenue Canada.

Remittance The money deducted from employees' pay for CPP (QPP), UI and income tax plus the employer's share of CPP contributions and UI premiums is paid to Revenue Canada, Taxation through a chartered bank or sent directly to the region's taxation centre, where a computer credits the employer's account and maintains a record of all deductions. Employers use a Remittance Form (PD7AR) for their payment and receipt.

Payroll deductions are to be held in trust until sent to Revenue Canada, Taxation on or before the fifteenth of the month following that in which the salary was paid. Employers who do not take the proper deductions or who send them in late have a penalty and interest added to the amount owed. Such an employer may also be prosecuted. Conviction could result in fines and/or imprisonment.

By the end of February, employers report to Revenue Canada, Taxation the total of all payments made to their employees during the preceding year on a Summary of Remuneration Paid (T4-T4A Return). They are also required to send a report of each employee's income and deductions for the year on a Statement of Remuneration Paid (T4 supplementary) to their District Taxation Office. They should also send two copies of it to the employee.

Rentals See Schedule 7.

Research grants are sums of money given to people to investigate something in science, history or another field of study. They are to cover the cost of the research plus the researcher's income.

Reserves are amounts of money that are deducted from income accrued but not received in calculating taxable income. An example would be the sale price of a car which is listed as income of a business but which is actually paid over three years.

Rollover is the transfer by sale or gift of property from one person to another. The term is usually used to describe the transfer of farm property to an heir who is also a farmer. This type of transfer does not require a capital gains tax to be paid. Pensions may also be rolled over into RRSP's taxfree.

Salary is the amount paid to an employee by an employer for work done. This type of employment income is recorded on T4 slips by each employer.

Saskatchewan has a tax reduction for its residents. The basic guidelines for claiming this reduction are on the Saskatchewan Income Tax form T1C(SASK.).

Schedules are pages annexed to the tax return for special calculations. They include:
Detailed Tax Calculation (Schedule 1),
Deductions Transferred from Spouse (Schedule 2),

Summary of Dispositions of Capital Property (Schedule 3),
Statement of Investment Income (Schedule 4),
Child Care Expenses (Schedule 5),
Additional Personal Exemptions (Schedule 6),
Statement of Real Estate Rentals (Schedule 7),
Capital Cost Allowance (Schedule 8),
Medical Expenses (Schedule 9) and
Child Tax Credit (Schedule 10).

Scholarships, fellowships and bursaries are amounts of money given to students for postsecondary education. The first $500 is tax free but the rest must be included in income calculations.

Securities See Investment.

Self-employed people are in charge of their own income. They often run their own businesses. Sometimes they work for another or other people or businesses on a contract. Some are professionals, such as doctors or lawyers. In either case they pay tax on their income by instalments or by deductions from their fees. They pay their own CPP but are not entitled to Unemployment Insurance. Their income is calculated by deducting their work expenses from what they receive.

Shares See Investment.

Small business is any business or corporation which has a yearly income of $200 000 or less.

Spouse is a partner in a legal marriage, a husband or wife.

Spouse's Allowance is money paid to the spouse of an old age pensioner when the spouse does not qualify for OAS because he or she is under 65 and has no other income.

Social Insurance Numbers (SIN) were designed to differentiate between people with the same name.

A different Social Insurance Number is given to each contributor to the Canada Pension Plan, Québec Pension Plan and Unemployment Insurance. It is used to record contributions and premiums paid into these plans and for the benefits paid out. Because these social insurance programs are connected to the tax system, the SIN is also used as an identifier for federal income tax. Therefore, it is important that every person who files an income tax return be sure that the correct SIN is on the forms.

Application forms for Social Insurance Numbers are available from Canada Employment Centres and some post offices.

Statements of Remuneration Paid (T4) show the income one has been paid by an employer. Taxable benefits, such as payments made on the employee's behalf to a provincial health care plan, and allowances are included as income. They also list how much the employer deducted for income tax, CPP (or QPP) contributions, contributions to the employer's pension plan and UI premiums.

Anyone who reports income earned from employment uses this form to prove how much was earned at each job and how much was deducted for CPP (QPP) pensions, UI and income tax. A copy is attached to the taxpayer's income tax return.

Statements of Income and Expense are used to calculate income from business, commissions or a profession. The gross, or total, income from commissions, sales, or any other sources is listed, then the total expenses necessary to earn that income. The difference between these two figures shows a profit (more income than expenses) or a loss (more expenses than income).

Adjustments are often necessary to determine the net income from business or commissions. Adjustments include the addition of:

a) the taxpayer's own salary or wages,
b) interest on capital,
c) cost of goods taken from the business for personal use,
d) the personal portion of automobile, rent or other expenses,

or the deduction of other allowable expenses which are deductible from an individual's share of partnership income.

Superannuation See Pensions.

T1 General or Special See Income tax return.

T2, T3 See Income tax return.

T4 See Statement of Remuneration Paid.

T7B See Instalments.

T7DR See Instalments.

TD1 See Employee's Tax Exemption Return.

Tables Revenue Canada, Taxation provides employers with CPP and UI tables to help them determine employee contributions and premiums. "Income Tax Deductions at Source" tables are also provided so employers can quickly find the amount of tax that should be deducted from taxable pay (after CPP(QPP) and UI have been deducted).

Tax Tables are provided to taxpayers with the income tax return to simplify the calculation of federal and provincial tax payable.

The **Tax Court of Canada** hears appeals concerning income tax assessments, unemployment insurance premium questions, petroleum and gas revenue tax, etc. The court is at 381 Kent Street, Ottawa, K1A 0M1 but it sits regularly in major cities across Canada.

The court is informal; it does not require special forms or that taxpayers be represented by a lawyer.

Tax credits are amounts of money considered to have been paid towards one's tax payable. They are given by governments to reduce or redistribute taxes or to encourage certain types of activity or investment. Examples are provincial tax credits, child tax credit, employer's tax credit, the scientific research tax credit or the dividend tax credit.

Tax payable is the amount of income tax that must be paid on the taxable income for the taxation year. (See also Balance due)

Tax treaties are signed between countries to avoid double taxation of their citizens with income from another country or to help each other collect taxes due or catch evaders. Canada has tax treaties with about 40 countries. See the leaflet, "Canada and its Tax Treaties" for complete information.

Taxable allowances are amounts of money or the value of goods or services that are paid or given by an employer on top of salary. For example, the part of a health insurance plan that the employer pays is a taxable benefit.

Taxable income is the amount of income left after all allowable deductions and exemptions have been subtracted from total income. It is the amount that is used to calculate income taxes.

Taxation Centres are places in various regions of Canada where tax returns are processed. Officers there also answer written inquiries about tax returns.

A **Taxation year** is a calendar or fiscal year for which taxation is to be paid.

Tips See Gratuities.

Total income is the sum of all revenues for the taxation year. It includes income from employment, business, investments, etc.

Transfer means the sale or giving of property to another person or corporation. It also includes the placing of title in another's name.

If property is sold certain taxes such as capital gains tax may be due. If it is given as in a bequest, it may be liable to the same taxes. If it is put in another's name, however, the original owner still has to pay tax on any income from it (so that transfers may not be used to avoid tax).

Deductions may also be transferred to a spouse in Schedule 3.

Transfer of tax deducted When a Québec resident works outside Québec provincial income tax is deducted from wages. This tax must be transferred by the federal government to the Province of Québec. The transfer is done by completing the appropriate sections of the federal income tax return. When taxpayers from other provinces work in Québec the transfer is done automatically on the income tax return if the provincial tax paid is accompanied by the TP4 slip.

Trial balance sheets account for all income and expenses for the fiscal year. Figures are taken from the business account books.

Tuition is the fees paid to a school for courses taken there. It includes the fees for laboratories, activities, etc. but not books or living expenses (see Education deduction).

Unemployment insurance developed out of concern for the problems of unemployment. Because a federal scheme of financial assistance to the provinces during the thirties could not cope with the massive unemployment, the Unemployment Insurance Act of 1941 was created. It has been amended several times to meet changing demands.

Generally, people who receive a salary or wages are required to pay Unemployment Insurance premiums. Self-employed persons are usually not covered under the Unemployment Insurance Act.

As of January 1, 1979, the minimum earnings on which an employer could make deductions for unemployment insurance premiums was determined by a minimum number of hours an employee worked within a certain pay period. Premiums are calculated at the rate of 2.3 percent of insurable earnings. Employers pay 1.4 times the employees' premiums. Detailed explanations and figures for these premiums can be found in *Canada Pension Plan Contribution and Unemployment Insurance Premium Tables.*

Union dues See Professional dues.

Valuation Day was December 31, 1971 (December 22, 1971 for shares). This was the day fixed for the evaluation of assets in computing capital gains or losses. Detailed information is in the pamphlet, "Valuation Day Prices of Publicly Tended Shares".

Vested After an employee has paid into a pension plan for 10 years, the employer's matching contribution is vested in the employee. That means that the employee will receive the benefits from the employer's contributions as well as his or her own on retirement.

Wages See Salary.

Welfare is money paid by governments to support people with little or no income or unemployment insurance.

Worker's Compensation is money paid to someone injured on the job. It is an insurance plan paid for by employers.

Yukon residents pay income tax to the territory along with their federal income tax. They are also given a political contribution tax credit (T1C Yukon).

Part 4

SOME THINGS YOU SHOULD KNOW ABOUT

"Tears and taxes are the price of liberty. The pockets that pay are more blessed than the eyes that weep."

John Robinson, The Toronto Telegram


STEP 3:
LIST YOUR INCOME
+ ___ x 20% +

Who Files

Any resident of Canada, whether or not a Canadian citizen, is subject to both federal and provincial tax on income from anywhere in the world.

Generally, all Canadian residents must file an income tax return if they were resident in Canada for even part of the year, excluding visits, and earned a "taxable income" (the amount of income minus the exemptions and deductions).

A person who does not have a taxable income does not have to file a return unless claiming:

1) a refund of Canada Pension Plan or Unemployment Insurance overpayments,
2) provincial tax credits,
3) a refund of income tax deducted at source,
4) a child tax credit, or unless
5) Revenue Canada, Taxation specifically requests one.

Completing your Return

The basic steps

There are six basic steps to complete an income tax return:

STEP 1: Get ready (Gather all the information slips, receipts and tools you will need);
STEP 2: Identify yourself (Complete all the boxes in the identification area (name, address, SIN, etc.) or correct the ones already printed on a personalized return);
STEP 3: List your income (All types of income are printed on page1 of the return);
STEP 4: Subtract your deductions and exemptions (on page 2);
STEP 5: Calculate your refund or balance due (page 4 of the income tax return);
STEP 6: Check and mail the return (Check for arithmetical errors, attach all information slips and receipts and a cheque or money order if a balance is due, sign and mail the return).

Getting ready

First gather everything you will need to complete your return. Collect all the information slips you have received and receipts for deductions you are claiming.

If you haven't received your Statement of Remuneration Paid (T4 slip) by the middle of March, contact your employer. If you cannot get a slip, estimate your income and deductions (such as Canada or Québec Pension Plan contributions and Unemployment Insurance premiums) on your return. Then attach a note explaining the problem and give the full name and address of your employer. Also attach any pay stubs you have.

If any other information slip or a receipt is missing, contact the organization that issues it. A T5 slip might not be sent to you by a bank if the interest was less than $100. You must, however, report this income. Attach a note giving the amount received and the name and address of the organization that paid you.

When copies of information slips or official receipts must be sent in, the return, guide or the schedule will tell you. Deductions without proper receipts may be disallowed. A photocopy of a receipt will not normally be accepted unless it has been certified by the issuer.

For some claims the receipts should not be attached your return. However, claims may be verified later. To prove your claims, any receipts or documents must be kept in an orderly manner and sent in when requested.

The tax guide

Take the time to read each item in the guide carefully. This will help you find all deductions you are allowed. It will also help you to fill out all areas of your return completely and accurately. A properly prepared return can usually be processed in a month. One with wrong numbers or missing information slips or receipts, etc. could take longer.

Identifying yourself

The **identification area** of the return should be completed, checked and corrected if necessary. This is important. If, for example, the correct Social Insurance Number is not used, Canada or Québec Pension Plan contributions will not be credited because these records are identified not by name but by SIN. If you do not have a Social Insurance Number, apply for one now at your local Canada Employment Centre. If your spouse does not have a Social Insurance Number and is not filing a return, he or she does not need to apply for one now.

Some of the most common errors taxpayers make in completing their return occur in this area. For example, many taxpayers forget to put their province of residence and business. Missing such information will delay the processing of the return at the taxation centre and the issuing of any refund due.

Also, many taxpayers correcting information from their personalized return do not give enough new information. For example, if an individual has moved during the year, he or she may not put down the new address correctly. In some instances, abbreviations are used for city names and no province or postal code is given. When correcting or changing information on the return, the new information must be recorded completely and accurately, as more than one city can have the same name.

When using a blank return, give your first name and at least one initial and your current address so that your assessment notice (and any refund) will be mailed correctly. Then enter the day, month and year of birth. This date is another means of identification and is important when a person reaches 65 and is able to claim an age exemption.

Be sure to write in the province or territory where you were living on December 31. If you were self-employed, put the province in which your business is located. If you have a permanent business establishment in another province, write that province in as well as your province of residence. The province must be identified for the calculation of provincial tax.

If you became or stopped being a resident of Canada put the date of entry or departure in the appropriate space. Do not make an entry if you were "deemed" to be an ongoing resident of Canada. If you are unsure of your status, see Interpretation Bulletin IT-221R2, "Determination of an Individual's Resident Status".

Marital status should also be indicated. Married people should give the usual first name of their spouse, his or her address, if different, and Social Insurance Number.

Immigrants should fill in the date of entry because they may only claim personal exemptions and the standard deduction for the number of days they resided in Canada.

Finally, your employer's name and your occupation should be given.

Mailing your return

Make sure your figures are correct and on the proper lines of the return. Where you put the same amount in two places on the return, check to see that you have copied the same amount.

Attach one copy of all T4 and other slips and receipts to page 3 of the return. Attach the schedules you have completed. However, a cheque or money order should be attached to the front of your return. Your telephone number and the date on which the return is being filed should be written in. A taxpayer's signature on the return is very important since it indicates that he or she agrees with the information on the return and that someone else has not fraudulently filed a return using the taxpayer's name.

Mail the final copy of your return by April 30. Use the envelope provided with the tax package because it already has the address of the Taxation Centre which should process your return.

Refunds

If you are claiming a refund, here are some points to keep in mind:

- If you file a return before March 1, do not expect a refund cheque before late April. Revenue Canada, Taxation's computers do not begin full-scale processing until late March.
- If you file a return after March 1, it will take at least a month to issue a refund cheque. There are over 15 million tax returns to process and about 10 million of these are claiming a refund.
- If you file an incomplete or inaccurate return, processing will take several weeks longer because the department cannot process your return until you have provided all the required receipts and information slips.
- If you change your name or address after filing your return, please notify your District Taxation Office in writing at once. The post office will not forward refund cheques.

If you have not heard from us within the time mentioned feel free to contact your nearest District Taxation Office.

Payment

If you owe any tax write the balance due on line 80. This balance is due by April 30. If you can't pay all of it send in your return and contact the District Taxation Office to arrange payment.

Write the amount of your payment in the space below the balance due. Make your cheque or money order out to the "Receiver General" and print your Social Insurance Number on the front of it. Attach the cheque to the front of your return. Do not send cash.

If you owe tax you may not have had enough tax deducted at source. In this case you may have to ask for larger deductions or pay tax by instalments next year.

After you have mailed your return

If you get another T4 slip or find another receipt or remember a mistake, don't send another return. Write a letter to your Taxation Centre and explain the problem. Enclose any new slips, receipts, information, etc. Be sure to tell us your Social Insurance Number and your complete name and address.

If you move after you sent your return, send a letter as quickly as possible to your District Taxation Office or Taxation Centre. Tell us what the old address was and your complete new address. Don't forget to add your name and SIN too. The post office will not forward a refund cheque; therefore, you must let us know where to send it.

Keeping books and records

Any receipts or documents required for your income tax must be kept in an orderly manner for six years.

Books and records proving the gross and net income from business or property must also be kept for audit. For information concerning the retention and destruction of records, obtain Information Circular 78-10R.

Confidentiality and Privacy

The Income Tax Act states that the information on your return must be kept confidential. It will not be given to anyone not specifically authorized by law. A person (such as a tax return preparer) requesting information about your return must provide a letter of authorization from you. Even then, only the information you authorize will be given to that person.

The Privacy Act protects your privacy and gives you the right to your return and other related information in your tax file.

Instalments

You must pay your taxes by instalment if
a) your federal income tax for last year was over $1 000
b) tax will not be deducted at source from at least 75 percent of your net income, and
c) your federal income tax for this year will be more than $1 000.

If your chief source of income is farming or fishing, you are required to pay two-thirds of your estimated tax payable by December 31 of the year. Others are required to pay one-quarter of their estimated total instalments payable by March 31, June 30, September 30 and December 31 of the year. Interest is charged on late or insufficient instalment payments. Instalment guides are available at your District Taxation Office.

Penalties

The penalty for filing a return late is 5 percent of the tax unpaid when the return was due plus 1 percent of the unpaid balance for each month (up to 12 months) that the return was late.

The penalty for those who try to evade tax by not filing a return is 50 percent of the tax owed. There are heavier penalties such as fines and imprisonment for filing a false return.

Interest

Interest at the prescribed rate is charged on:
a) unpaid tax, including tax owing as a result of a reassessment of your return and
b) late or insufficient instalment payments.

Interest at the prescribed rate is also added to refunds after April 30. This interest qualifies for the interest, dividends and capital gains deduction.

Prorating

When someone comes to live in Canada (an immigrant or a Canadian returning home) or leaves, that person is entitled to personal exemptions only for the days of residence in Canada. That is the reason that the dates of entry and departure are asked for in the Identification area of the tax return.

To prorate such a person's income you would calculate the portion of the exemption that is allowed by multiplying it by the fraction created when the number of days of residence are divided by the number of days in the year.

For example:
To calculate the basic personal exemption for a new Canadian, put the number of days in the country (let's say it was 200) over 365 and multiply by the amount of the current exemption to determine how much the taxpayer may claim.

$\frac{200}{365}$ days X \$3 770 basic personal exemption = \$2 065.75 (the amount the taxpayer claims)

The equivalent-to-married exemption for an immigrant would be calculated similarly:

1) $\frac{200}{365}$ days X \$3 300 equivalent-to-married exemption = \$1 808.22
2) \$1 808.22 - \$1 400 (spouse's income in Canada) = \$408.22 (the amount to claim)

Forward Averaging

Forward averaging lets taxpayers spread income received in the current year over future years when they may be in a lower tax bracket.

The income a taxpayer wants to average forward is deducted from the total income. Tax is paid on this income at the highest rate. This income with the tax paid on it is carried forward to subsequent years. A taxpayer may add all or any portion of this income to the year's income in any subsequent year and claim the tax paid as a credit against the tax payable. The result may be that this income will be taxed at a lower rate.

It works this way

The amount (which may not be less than \$1 000) averaged forward will be subtracted before calculating taxable income for the year. The excluded amount will be taxed federally at 34 percent and provincially at the current provincial rate.

The income is then carried forward until the taxpayer chooses to draw on it. Income in later years can be added. Each year an indexing factor based on changes in the consumer price index (CPI) will be applied to keep the elective income on a current dollar basis. The resulting amount is the "accumulated averaging amount."

In any following year throughout which the taxpayer is resident in Canada, he or she may draw on the accumulated averaging amount. All or part of it may be included in income and taxed at the rate for that year. Credits equal to the 34 percent federal rate and the current provincial rate may be claimed. These credits, with any others for the year, are applied to the tax payable. Any difference will be refunded.

It is up to the taxpayer to decide the best time to draw on the accumulated averaging amount, usually in a low-income year.

Taxpayers by Occupation
1981 Tax year

Occupation	Number	Average income	Total income	% of grand total	Average federal tax	Total federal tax	% of grand total
		$	$ millions		$	$ millions	
Self-employed							
Doctors	30.542	66.722	2.037 8	0 87	13 969	426 6	1 71
Dentists	7.892	60.139	474 6	0 20	12 302	97 1	39
Lawyers	16.124	53.123	856 5	37	10 032	161 8	65
Engineers and architects	4.041	40.001	161 6	07	6 953	28 1	11
Accountants	10 733	38.406	412 2	18	5 923	63 6	26
Other professionals	39.981	20.181	806 8	34	2 568	102 7	41
Investors	1.179.343	18.568	21 897 8	9 36	1 698	2 002 0	8 03
Property owners	105.940	16.326	1.729 5	74	1 863	197 3	79
Farmers	277 470	16 159	4 483 6	1 92	1 209	335 3	1 35
Salesmen	33 001	15.484	511 0	22	1 655	54 6	22
Business proprietors	493.234	12.800	6.313 3	2 70	1 192	588 1	2 36
Fishermen	34.391	12.691	436 4	19	1 045	35 9	14
Entertainers and artists	19.287	9.795	188 9	08	727	14 0	06
Pensioners	951 866	9.432	8.978 2	3 84	437	416 2	1 67
Unclassified	1 499 135	2.495	3 740 3	1 60	133	199 8	80
							81 05
Employees							
Teachers and professors	321.241	27 665	8.887 9	3 80	3.528	1.133 4	4 55
Federal government	364 116	22 041	8.025 7	3 43	2.653	965 9	3 87
Armed Forces	515.258	21 019	10.830 2	4 63	2 461	1.268 0	5 09
Provincial governments	80 628	20.348	1.640 6	70	2.289	184 5	0 74
Municipal governments	533.777	18 786	10.027 4	4 29	2.077	1.108 9	4 45
Companies	7 403.747	16.827	124 584 1	53 24	1.887	13.973 6	56 06
Institutions	857 682	15 413	13.219 1	5 65	1.500	1.286 2	5 16
Unclassified	399 712	9 383	3 750 7	1 60	712	284 5	1 14
Total	15.179.141	15.415	233 993 7	100 00	1 642	24 928 3	100 00

Source *Taxation Statistics*. Summary Table 3

Who qualifies

Qualifications for averaging forward are:

- residence or "deemed" residence in Canada throughout the year of averaging plus the two preceding years,
- eligible income,
- taxes, interest and penalties due must be paid within 30 days from the mailing date of the Notice of Assessment for the year of averaging, and
- a return must have been filed for each of the preceding three years for which tax was payable.

Eligible income

Most taxpayers can determine the amount of their eligible income by:

1. determining their net income (line 41);
2. deducting their adjusted income from their net income;
3. determining taxable income before any deduction for forward averaging (line 61(a)).

Income eligible to be averaged is the smaller amount in (2) or (3) if it exceeds $1 000.

Taxpayers who have included in their income a prior year's capital gains reserve, or who are reporting income from athletics, music or entertaining, or from the production of a literary, dramatic, musical or artistic work are allowed to substitute the full amount of this income for the amount in (2) if this income is greater than the amount determined in (2).

Adjusted income

A taxpayer may calculate adjusted income by:

1. multiplying net income for each of the three preceding years by the CPI indexing factor:

Year	Net income		Indexing factor		Revised net income
198 __	$ ________	×	IF __	=	$ ________
198 __	$ ________	×	IF __	=	$ ________
198 __	$ ________	×	IF __	=	$ ________
			Total		$ ________

2. dividing the total revised net income by three:

Total revised net income / Average revised net income

$\frac{\$\_\_\_\_\_\_\_\_}{3} = \$\_\_\_\_\_;$

3. multiplying the average revised net income by 110%:

Average revised net income			Adjusted income
$ ________	X	110%	= $ _____.

Records

Revenue Canada, Taxation will keep records of accumulated averaging amounts. The initial election recorded by the computer will be adjusted by amounts drawn back into income or added in subsequent elections. The annual indexing factor will be applied automatically. The current accumulated averaging amount and any other information, such as net income, is available at the District Taxation Office.

How to

To make an election to average income forward, a taxpayer must complete form T540 and file it with the tax return on or before April 30. To draw amounts from the accumulated averaging amount back into income, a taxpayer simply decides how much to include in income, makes the usual calculations and claims the appropriate credits.

Standard Financial Statements

Introduction

Standard Financial Statements are being provided to bring order to the reporting of income and expenses, both to reduce the cost and time to process the information by the tax department and the cost to taxpayers of producing the information.

These standard forms are an optional aid to preparing financial statements for income tax purposes.

The forms

"Statement of Business Income and Expenses" (T2124)
"Statement of Professional Income and Expenses" (T2032)
"Adjustments to Income Schedule" (T2130)
"Capital Cost Allowance Schedule" (T2132)

Who should use them

These forms are for the business or professional income of a proprietor or a partner in a business or professional firm.

Statement of Business Income and Expenses

This statement shows the income and expenses from a business. A partner includes the total income and expenses of the partnership. Separate statements are necessary for each business.

Under automobile or truck expenses, include only the business portion of the total expense if the automobile or truck is also for your personal use.

Use the "Other Expenses" area only to record allowable expenses which cannot be reasonably included in any of the existing expense categories. For example, rental of a backhoe should be included in "equipment rental" rather than as an "Other Expense".

Adjustments to Income Schedule

Excess of income over expenses from the Statement of Business Income and Expenses (T2124) should be adjusted for any income amounts which are not reported on the statement, for nondeductible expenses which are included on it and for allowable expenses which are not included on the statement.

Examples of additional income include a capital cost allowance recapture or the excess of an eligible capital amount over the balance of your Cumulative Eligible Capital Account. Income items, such as pensions, taxable family allowance payments, taxable capital gains, etc., which are to be shown separately on page 1 of your T1 return should not be put on this schedule.

Examples of nondeductible expenses might include any personal expenses or the personal portion of expenses that are shown on the Statement of Income and Expenses.

Allowable expenses/deductions may include any reserves or inventory allowance which are allowable for tax purposes but which are not shown on the Statement of Income and Expenses.

If you are a partner, this schedule is to be used to claim allowable expenses laid out for the purpose of earning partnership income but not reimbursed by the partnership. For example, you may claim the business portion of your automobile expenses if you used your own car in the course of your partnership duties.

The gross and net business income should be entered on the appropriate lines on page 1 of your T1 return. If you are partner, enter the gross income of the entire partnership on page 1. If you have two or more adjustment schedules, the amount to be entered on page 1 of your T1 return would be the sum of the net income amounts on each of the schedules.

Capital Cost Allowance Schedule

You may not charge the original cost of equipment and buildings as an operating expense. Because these assets wear out or become obsolete over a number of years, you are allowed to charge as an operating expense an amount called capital cost allowance (CCA) or depreciation as explained below:

a) When an asset is used for business and personal purposes, you may claim CCA only on the part of the cost of the asset corresponding to the use made of the asset for business purposes. This applies particularly to automobiles;
b) No allowance may be claimed on land or growing things such as trees, shrubs or animals;
c) You may claim any lesser rate in any year;
d) You may not add to the cost of an asset the value of your own labor used in building it;
e) Depreciate assets are grouped into classes, according to the rate which applies. The capital cost allowance you may claim is the total cost (including the cost of capital improvements) of all assets included in the class, less amounts deducted for assets disposed of (see (f)), the amount of capital cost allowance taken in prior years, and any amounts claimed as a business investment tax credit for assets included in the class.
f) If you disposed of an asset during the taxation year, you must deduct from its class the lesser of the proceeds of disposal or the capital cost of the assets. The "capital cost" of an asset is its original cost plus the cost of any alterations or improvements less the amount of any business investment tax credit that was claimed for the asset before its disposition. If the amount which must be deducted exceeds the undepreciated capital cost of the class to which the asset belonged, the excess must be reported as income. This is referred to as "recapture" of capital cost allowance. If the amount deducted is less than the undepreciated capital cost of the class, you may continue to claim CCA on the balance remaining. If no assets are left in the class after the disposition, you may claim the remaining balance, known as a "terminal loss", as an expense in the year.
g) When you dispose of an asset for a price greater than its adjusted cost base (its "capital cost" as determined above) a capital gain results. This capital gain should be recorded on Schedule 2 of your T1 return.

Disposal of a building (1) If you disposed of a building for less than its undepreciated capital cost but did not dispose of the land the building sits on or right next to the building, the deemed proceeds of disposition are:

a) the actual proceeds of disposition of the building plus
b) one half of the difference between the undepreciated capital cost of the building (or its fair market value if greater) and the actual proceeds.

(2) If you disposed of a building for an amount less than the undepreciated capital cost of the building as well as the land the building sits on or the land right next to it, the deemed proceeds of disposition are the lesser of:

a) the excess of (the actual proceeds of disposition of the land and buildings) over (the lesser of the adjusted cost base of the land and its fair market value immediately before the disposition), and

b) the greater of the undepreciated capital cost of the building and the fair market value of the building.

These rules give the same tax treatment to a terminal loss on the building as would be given to a capital loss on the land, i.e. only half of the terminal loss would be deductible.

Starting business If you started a business in the taxation year, group the assets into classes. Enter the classes in column 1 of the capital cost allowance schedule. Enter the applicable amounts for each class in column 3.

CCA claimed in a previous year If you claimed capital cost allowance last year, enter the class numbers in column 1 of the capital cost allowance schedule. In column 2 enter the undepreciated capital cost of each class taken from column 10 of the schedule attached to last year's return.

Assets acquired in the taxation year If you acquired a depreciable asset, you may claim capital cost allowance on only one half of the capital cost of the asset.

If you also disposed of an asset in the same class, you may claim capital cost allowance on only one half of any excess of the capital cost of that asset over the proceeds of disposition of the asset. As the rules for determining the proceeds of disposition of a building for this purpose are complex, consult your District Taxation Office if you need help. The proceeds of disposition of other assets are the lesser of the actual proceeds of disposition and the capital cost of the asset.

If arrangements to acquire the property were begun or completed prior to November 12, 1981, you may claim CCA on the full capital cost in the year of acquisition.

Special points concerning capital cost allowance When you receive a subsidy or grant which reduces the cost of a capital asset, you must deduct the amount received from the total cost before calculating CCA.

Capital cost allowance may usually be claimed on a leasehold interest in a property, but the maximum rate allowable depends on the nature of the leasehold interest and the terms of the lease. Contact your District Taxation Office for special capital cost allowance rules which may apply in the year of acquisition.

When assets are purchased in transactions which are not at "arm's length", there are important exceptions to the CCA rules. For further details on the exceptions, refer to Interpretation Bulletins IT-405 "Inadequate consideration - Acquisitions and Dispositions" and IT-419 "Meaning of Arm's Length".

Capital cost allowance classes The most common assets and their rates are shown in your guide.

Eligible capital expenditures

Beginning January 1, 1972, taxpayers were allowed to create an account comparable to a capital cost allowance class for capital expenditures such as the purchase of a franchise, concession or licence for an unlimited period. One half of the cost is included in this account and taxpayers may deduct 10 percent of the balance of the account on a reducing balance basis.

Eligible capital expenditures are outlays or expenses after 1971 which are not an allowable deduction from income because of the general prohibition against the deduction of capital items, and yet is still an amount spent in order to earn income.

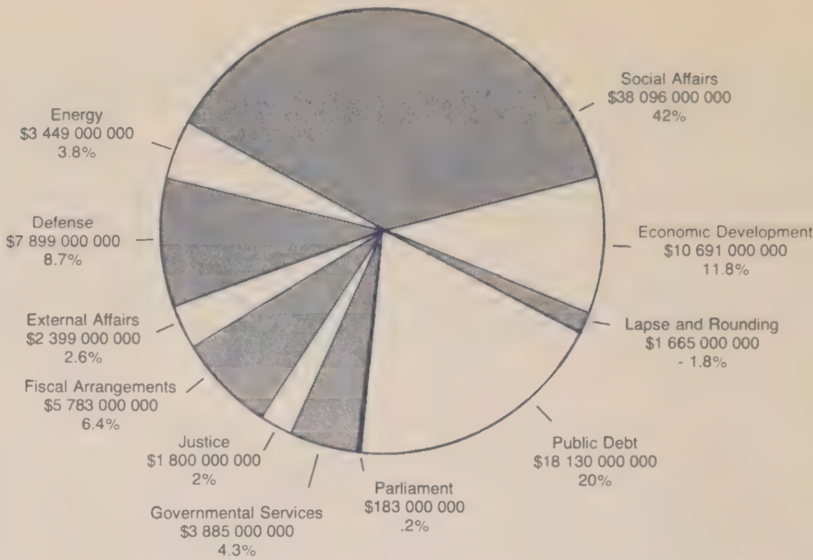
Cumulative eligible capital account Enter in this account one-half of eligible capital expenditures. When this type of asset is sold, one-half of the proceeds are deducted from the balance of the account.

You may deduct from your income up to 10 percent of the balance of the account at the end of each taxation year. Subtract the total of these annual deductions from the balance in the account in the same way that you deduct annual capital cost allowances.

The amount you deduct from the account balance because of a sale of this type of asset is called an "eligible capital amount". If an eligible capital amount exceeds the account balance, you must add the excess to your income for the year of the sale, unless it is offset by further eligible capital expenditures made later in the same year.

Expenditures
1983-1984

$90 650 000 000



Legend

Social Affairs
Old Age Security benefits, Established Programs Financing and Canada Assistance Plan (CAP) payments to the provinces, the government's contribution to unemployment insurance, and Family Allowances.

Economic Development
Transportation and communications, agriculture, regional economic development, industrial development, science and technology, fisheries, forestry, and consumer and corporate affairs.

Public Debt
Interest (loans, bonds, Canada Savings Bonds, Treasury bills, Canada Pension Plan, foreign loans) and service charges.

Parliament
The House of Commons, the Senate and the Library of Parliament.

Governmental Services
Services, supplies and general accommodation to federal departments and agencies, and the maintenance of roads, bridges, marine facilities, public utilities, federal lands, art galleries and museums.

Justice
Legal Services, the RCMP, correctional services, the Canadian Human Rights Commission and the Supreme Court of Canada.

Fiscal Arrangements
Transfers and equalization payments to the provinces, and grants paid to local governments and provinces in lieu of taxes on federal property.

External Affairs
International aid and diplomacy.

Defense
Operating armed forces, CF-18 fighter aircraft, NATO, and youth training and employment.

Energy
Conservation and efficient use of energy, increasing the supply of domestically produced oil and other sources of energy, encouraging the use of non-oil energy sources, and Petro-Canada.

Source: The Department of Finance, *The Fiscal Plan*, 1984.

Page 1

For use of individuals other than farmers and ranchers.

Form T-1
1919

DOMINION OF CANADA

INCOME TAX

RETURN OF INCOME FOR THE YEAR ENDED 31st DECEMBER, 1919

All returns should be prepared in triplicate. One copy should be retained by the taxpayer and two copies must be delivered to the **Inspector of Taxation** on or before **30th April 1920.**

Name .... (Surname) .... (Christian names in full) ....

P.O. address of present residence .... (Street and number) .... (City or Town) .... (County) .... (Province) ....

Occupation or nature of business of Taxpayer ....

Name in full and address of Employer or Firm or trading name for year 1919 ....

Place of residence during 1918

Did you make a Dominion Income Tax Return for 1918? ....Have you been assessed for Dominion Income Tax for 1918? ....

State whether married or unmarried, Widow or Widower .... (If status was changed during the year, state date of change)

State number and ages of children under the age of 18 years dependent on you for support ....

If supporting dependent brothers or sisters under the age of 18 years or a dependent parent or parents, grandparent or grandparents, give particulars

If a widow or widower state number and ages of dependent children, if any, under the age of 21 years or over 21 years of age and dependent on you for support on account of physical or mental incapacity

I hereby certify that the return embodied herein, the supplementary statements and additional schedules attached, if any, contains a true and complete statement of my Gross Income and Deductions claimed for the year 1919.

Date Telephone Number Signature

N.B.—It is essential that taxpayers notify the Inspector of Taxation to whom return has been made, of any change in address.

INSTRUCTIONS:—Fill in carefully the answers to the above questions and the particulars required on pages 2 and 3 of this form. All persons engaged in business, including members of trading partnerships, should attach to this return a certified financial statement of the business, including Assets and Liabilities, Trading and Profit and Loss Accounts for the accounting period ended in 1919, showing how the amount of Item No. 4 on page 2 is ascertained. Those who are unable to provide such a statement owing to lack of sufficient accounting records, must fill in particulars of their business in the schedule provided on page 4 of this return.

It is important to give all the information asked for as otherwise the amount of exemption and the tax assessable, if any, cannot be determined by the assessing officer without further inquiry.

A Special Form T 1A has been provided for the use of farmers, but in the case of a taxpayer carrying on a farming business in addition to his regular occupation he should use Schedule 10, page 2, for the Gross Income therefrom and Schedule 19, page 3, for the expenses in connection therewith.

PENALTY :—The Income War Tax Act, 1917, as amended, provides that every person required to make a return under Sub. Sec. 1 of Sec. 7 of the Act who fails to make a return within the time limited therefor, shall be subject to a penalty of Twenty-Five per centum of the amount of the tax payable.

Any person, whether taxable or otherwise, who fails to make a return or provide information duly required according to the provisions of Sec. 8 of the Act, shall be liable on summary conviction to a penalty of $100 for each day during which the default continues. Also that any person making a false statement in any return or in any information required by the Minister, shall be liable, on summary conviction, to a penalty not exceeding $10,000, or to six months' imprisonment or to both fine and imprisonment.

Page 2

GROSS INCOME

FOR CALENDAR YEAR 1919

	$	c.
1. SALARIES OR WAGES received from (Employer's name)		
Bonus or Gratuities received from..........		
Pensions received from		
Director's Fees received from..........		
Board, living, house or subsistence allowance received from		
2. GROSS INCOME FROM PROFESSIONAL FEES (State whether Cash Receipts and Accounts charged or Cash Receipts only)		
NOTE If Financial Statement in duplicate is attached showing Gross Income and Deductions only Net Income need be shown here		
3. GROSS INCOME FROM COMMISSIONS		
NOTE—Give name and address of person from whom received or attach statement showing how amount is reached		
4. NET INCOME FROM BUSINESS as per statement herewith or Schedule, Page 4		
Value of merchandise, food, clothing, etc., taken from stock for personal or family use		
NOTE:—See Instructions on Page 1		
5. GROSS INCOME FROM RENTALS		
NOTE.- Give address or location of property.		
6. INCOME FROM DIVIDENDS—	$ c.	
(i) From Canadian Corporations		
Total		
Less Carrying Charges (if any).....		
Net		
(ii) FROM BRITISH AND FOREIGN CORPORATIONS—		
Total		
Less Carrying Charges (if any)		
Net		
NOTE: { If shares were purchased during taxation year, please give date. Give name of corporation in each case, stating number of shares and if Common or Preferred		
7. INCOME FROM INTEREST on Mortgages, Notes, Bank Deposits, Bonds and Debentures, Debenture Stock and Securities other than reported in Item No. 9..........		
8. INCOME FROM FIDUCIARIES (Trustees, Executors, Administrators, Guardians or Financial Agents)		
NOTE:—Give name of Estate and name and address of Trustee		
9. INCOME FROM DOMINION OF CANADA BONDS issued exempt from Income Tax	$ c.	
Less carrying charges (if any)		
Net		
10. INCOME FROM OTHER SOURCES not elsewhere enumerated (specify)		
11. TOTAL INCOME		

Where the space provided in the schedules above is not sufficient, supplementary sheets properly identified ... full information must be attached ...

EXPENSES CLAIMED AS DEDUCTIONS FROM INCOME FOR CALENDAR YEAR 1919

	$	c.
12. GENERAL EXPENSES applicable to business, trade or profession not included in Statement herewith or in Schedule, Page 4		
13. INTEREST PAID ON BORROWED MONEY (exclusive of any amount included in Item No. 6 or No. 9)—		
(i) Mortgages on Rented Property		
(ii) Other Interest (specify)		
NOTE—Give name and address of person to whom interest is paid. Do not include mortgage on residence or interest on moneys borrowed for personal and living expenses.		
14. TAXES. Provincial and Municipal Taxes on Property other than taxpayer's residence (exclusive of Income Tax, Local Improvement Tax or any amount reported elsewhere)		
Premium paid for Fire Insurance on rented property		
Repairs to rented property		
NOTE—Under each heading where an amount is claimed give address or location of property.		
15. BAD DEBTS actually written off within the year which have been contracted since 1st January, 1917		
NOTE:—Only accounts relating to taxpayer's business or profession are to be included here and no amount already charged before arriving at total opposite Item 4, Page 2, of this Return is to be included.		

16 DEPRECIATION — Nature of Article. If Building state material and date of construction. If machinery, give description and date of purchase.	Year Acquired.	Cost Value (not including land value).	Rate per cent per An.	Wear and Tear Charged Off: Amt. in previous years.	Wear and Tear Charged Off: Amount this year.
		$ c.		$ c.	$ c.
				Total depreciation...	

NOTE:—Do not include depreciation on stock in trade, land or securities or any other asset not subject to exhaustion through wear and tear. This Schedule must not include any amount already charged before arriving at total opposite Item 4, Page 2, of this Return.

	$	c.
17. WAR FUND CONTRIBUTIONS. Contributions actually paid to the Canadian Patriotic, Canadian Red Cross and other approved War Funds during 1919 (Specify)		
18. NET INTEREST FROM DOMINION OF CANADA BONDS OR STOCK issued exempt from Income Tax (to offset Item No. 9 and proper proportion Item No. 8) .		
19. OTHER DEDUCTIONS not elsewhere enumerated. (Specify)		
20. TOTAL DEDUCTIONS .		

Where the space provided in the above Schedules is not sufficient supplemental sheets properly identified containing full information must be attached to this Return.

FINANCIAL STATEMENT

(See Instructions on Page 1)

STATEMENT OF PROFIT AND LOSS

For year ending 1919

Merchandise sold during the year		$
Inventory of Merchandise at commencement of year at cost price.. (If Inventory is not taken at cost state basis of valuation)	$	
Add Cost of Merchandise bought for sale (Including Freight and Duty)		
	$	
Less Inventory of Merchandise at end of year at cost price (If Inventory is not taken at cost state basis of valuation)	$	$
Gross Trading Profit for Year		$
Add Other Income Derived from Business		
....		
TOTAL GROSS PROFIT		$
Less Expenses—		
Salaries and Wages............... (Not including Proprietor or Partner)	$	
Rents .... (Give name and address of person to whom paid)		
Taxes on Property used in Business		
Other Taxes. (Specify).........................		
Interest paid on money borrowed and used in business apart from Capital...		
Fire Insurance Premiums		
Repairs		
Bad debts actually written off within the year arising from sales contracted since 1st January, 1917...............................		
Sundry (Specify)		
TOTAL NET PROFIT ...		$

Where profits are divided amongst partners the amount paid or credited to each must be clearly shown.

STATEMENT OF ASSETS AND LIABILITIES

As at end of Business Year.

ASSETS—	
Stock of Merchandise on hand at cost price....	$
Cash on hand and in Bank.................	
Accounts Receivable......	
Bills Receivable	
Real Estate, Buildings...	
Real Estate, Land	
Machinery and Tools	
Furniture and Fixtures	
Other Investments	
Sundry (Specify).....	
TOTAL ASSETS	$
LIABILITIES—	
Accounts Payable	$
Bills Payable	
Loans	
Accrued Interest.	
Sundry (Specify)...........	
TOTAL LIABILITIES	

UNDIVIDED PROFITS OR SURPLUS ACCOUNT

DEBIT		CREDIT	
Deficit at beginning of Period (if any)................		Undivided Profits at beginning of Period (if any)....................	
Profits distributed to Partners as follows:		Profits for 1919 Accounting Period	
Other Items (Specify)		Other Items (Specify)............	
Loss for 1919 Accounting Period			
Undivided Profits at end of Period....		Deficit at end of Period	

Audited by .... By ....

T. 6 No. Date Inspector's Office Commissioner's Office

Barr, N.A., S.R. James and A.R. Prest. *Self-assessment for income tax.* London: Heinemann Educational Books, 1977.

Discusses advantages and disadvantages of self-assessment for personal income tax as proposed for the United Kingdom; outlines the tax systems in the United States, Canada and Sweden.

Beam, Robert E. and Stanley N. Laiken. *Introduction to federal income taxation in Canada; commentary and problems.* 4th ed. 1983-84. Don Mills, Ontario: CCH Canadian, 1983.

A guide in the study at the introductory level of the major provisions of the Income Tax Act.

Canada. Commission Royale d'enquête sur la fiscalité. *Rapport de la Commission Royale d'enquête sur la fiscalité.* Kenneth LeM. Carter, prés. 6 v. Ottawa: Commission royale d'enquête sur la fiscalité, 1966.

Canada. Department of Finance. *Proposals for tax reform.* Ottawa: Department of Finance, 1969.

This is known as the "White Paper on Tax Reform".

Canada. Department of National Revenue, Taxation. *Inside Taxation.* Ottawa: Revenue Canada, Taxation. Annual.

Informs the public about the tax department, its functions and philosophy, and about tax legislation.

Canada. Ministère des Finances. *Propositions de réforme fiscale.* Ottawa: Ministère des Finances, 1969.

Canada. Ministère du Revenu Canada, Impôt. *Les rouages de l'impôt.* Ottawa: Revenu Canada, Impôt. Annuaire.

Renseigne le public sur le fonctionnement de Revenu Canada, explique l'optique du Ministère et la législation fiscale.

Canada. Royal Commission on Taxation. *Report of the Royal Commission on Taxation.* Kenneth Le M. Carter, chairman. Ottawa: Royal Commission on Taxation, 1966.

This report led to the major reform of the income tax system in Canada.

Canadian Income Tax Act, with regulations. Don Mills, Ontario: CCH Canadian. Annual.

Canadian master tax guide; a guide to Canadian income tax. Don Mills, Ontario: CCH Canadian. Annual.

Canadian Tax Journal. Toronto: Canadian Tax Foundation. 6/yr.

Canadian Taxpayer. A.B.C. Drache, ed. Toronto: Richard de Boo. 24/yr.

Comments on new developments in federal and provincial taxation.

Canadian Tax News. Donald R. Huggett, ed. Agincourt, Ontario: Carswell/ Methuen. 10/yr.

Canadian Unemployment Insurance legislation. 8th ed. Don Mills, Ontario: CCH Canadian, 1984.

Full texts of the Unemployment Insurance Act, the Unemployment Insurance Regulations, the National Training Act, and other relevant acts.

Colley, Geoffrey M. *Éléments fondamentaux de l'impôt; un cours d'introduction à l'impôt canadien sur le revenu.* Toronto: L'Institut Canadien des Comptables Agréés. Annuaire.

Un guide à la Loi de l'impôt sur le revenu.

Colley, Geoffrey M. *Tax principles to remember; an introductory course in Canadian income tax.* Toronto: Canadian Institute of Chartered Accountants. Annual.

A guide to the Income Tax Act, arranged in a series of lessons.

Coward, Laurence E. *Mercer handbook of Canadian pension and welfare plans.* 7th ed. Don Mills, Ontario: CCH Canadian, 1981.

Discusses the benefit system in Canada; outlines legislation in the pension, welfare and employee benefit fields.

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A bibliography to primary and secondary tax references from English and French language sources. Indexed by topic and arranged by section of the Income Tax Act.

The Volunteer Program

For those interested in putting classroom knowledge to practical use, Revenue Canada, Taxation offers a Volunteer Program. Early in the year volunteers attend a training session where they learn the basics of how to complete a tax return but with emphasis on certain kinds of tax situations. After training, volunteers go into the community wherever their help is needed – to senior citizens' homes, for example – or they leave their names with the local District Taxation Office for referrals.

If you are interested in participating, please contact the public relations officer in your District Taxation Office to find out about the program in your area

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